



City of Phoenix

Mission Statement

To improve the quality of life in Phoenix through efficient delivery of outstanding public services.

Project Team

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Project Number

1240061

This report can be made available in alternate format upon request.

**Office of Homeless Solutions
Contract Audit – Emergency Shelter Services**

June 26, 2024

Report Highlights

Contract Expenditures

Overall, expenditures complied with contract allowances. However, a few exceptions were found, resulting in \$26,074 of expenditures missing complete documentation to substantiate the expense.

Vendor Compliance

We identified a few instances of vendor non-compliance with cost and performance requirements.

Contract Monitoring

Monitoring controls can be strengthened by consistently performing risk assessments for active contracts, and fiscal monitoring for contracts meeting the minimum criteria.

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Executive Summary

Purpose

The purpose of this audit was to evaluate vendor compliance with the emergency shelter services contracts and respective funding sources, and to determine if the City had strong controls in place to monitor homeless service organizations on contract.

Background

The Office of Homeless Solutions (OHS) provides services for people experiencing homelessness, including shelter, heat relief, outreach, behavioral health services, homeless prevention, and supportive housing.

To help provide shelter for people experiencing homelessness, the City engaged in contracts with multiple organizations to provide emergency shelter services. The duration of the current contracts ranged from FY2017 to FY2024. We reviewed 13 of these contracts that were active during FY2023 and/or FY2024, with a combined contract value of approximately \$27M. See **Attachment A – Emergency Shelter Contracts** for the list of contracts that were included in this review. The Human Services Department (HSD) functions as the owner of the contracts and OHS oversees the implementation of services and the monitoring of contractors.

Funding sources for the emergency shelter contracts includes Federal funding via the American Rescue Plan Act (ARPA), the Emergency Solutions Grant (ESG), and Community Development Block Grants (CDBG), as well as City general funds. For Federal funding, the City acts as the pass-through entity, and the City’s contractors (homeless service organizations) are considered the subrecipients of the Federal award. The terms “contractor” and “subrecipient” are used interchangeably in this audit.

Results in Brief

HSD did not consistently perform annual risk assessments as required by the Federal government.

HSD performed risk assessments in calendar year 2023 for 10 of 13 active contracts. Risk assessments were not performed for the remaining three contracts.

Third-party fiscal monitoring was not performed, or scheduled to be performed, for ten contracts that met the defined criteria.

HSD contracted with the vendor The Pun Group to provide fiscal monitoring of contracts if the contract was 1) new, 2) not monitored the prior year, or 3) identified as high-risk. We found inconsistencies between HSD’s policy and actual monitoring performed or scheduled to be performed, where ten of the contracts were not reviewed or planned for review on schedule.

OHS had controls to monitor contractor payments and performance on a monthly basis. However, we identified exceptions that did not align with contractual requirements.

Contractors were required to submit documentation monthly, including Contract Payment Requests (CPRs), verification of expenses, and various performance reports, which OHS reviewed prior to payment.

Thirteen of 14 contracts had all required back-up documentation to substantiate the expense ledgers and invoiced costs. Expenses for one contract was missing documentation to substantiate costs totaling \$26,074. All 14 contracts either did not meet or did not report on at least one contractual performance goal, such as the number of positive exits, and the amount of total clients served.

Controls can be improved to ensure case management ratios align with best practices.

Emergency shelter contracts required subrecipients to participate in the Maricopa Regional Continuum of Care (CoC). The CoC recommends implementing a reasonable ratio of case managers to clients. OHS performed routine site visits of the service providers as part of their monitoring controls to assess vendor compliance with contract requirements. We found that OHS did not include a review of the subrecipient's case management ratio. Furthermore, the ratios for multiple contracts varied drastically among the caseworkers assigned to each client during the reviewed periods.

Department Responses to Recommendations

<p>Rec. #1.1: HSD – Improve monitoring controls by performing risk assessments for contracts that were not assessed in FY2023-FY2024, and ensuring risk assessments are performed annually for all emergency shelter contracts.</p>	
<p>Response: HSD has a policy that requires performing risk assessments for all contracts annually and will perform a risk assessment on the 3 contracts that were not assessed in FY 2023-2024.</p>	<p><u>Target Date:</u> 7/31/2024</p>
<p>Rec. #1.2: HSD – Improve monitoring controls to ensure that fiscal monitoring is performed for the remaining contracts, as required by internal policy.</p>	
<p>Response: HSD has a policy to conduct fiscal monitoring on all contracts annually. The policy has been updated to require monitoring annually when funding allows during that monitoring period. When adequate funding is not available, those contracts that were not monitored will be prioritized in the next monitoring period.</p>	<p><u>Target Date:</u> 7/31/2024</p>
<p>Rec. #1.3: OHS – Ensure supporting documentation is on file to substantiate contractor and subcontractor expenses. Obtain missing documentation and/or recover funds from unsubstantiated payments.</p>	
<p>Response: OHS is ensuring supporting documentation is on file to substantiate contractor and subcontractor expenses. OHS will work closely with the HSD Fiscal team to ensure required documentation is obtained. OHS is ensuring each contract has a file folder in the shared drive with required supporting documentation.</p>	<p><u>Target Date:</u> 8/31/2024</p>
<p>Rec. #1.4: OHS – Document and improve monitoring controls to ensure contractors track, report on, and meet contractual performance requirements. Evaluate and update contracts as necessary to ensure that performance requirements are reasonable.</p>	
<p>Response: Outcome reports and performance requirements are being updated for all new and amended contracts moving forward. OHS will revise outcome reports and performance measures to ensure applicable, measurable, and verifiable outcomes are included in our amended or new contracts for the new fiscal year.</p>	<p><u>Target Date:</u> 8/31/2024</p>
<p>Rec. #2.1: HSD – Amend contracts to include terms that align with ESG requirements for contracts that use ESG funds.</p>	

<p>Response: HSD will work with OHS to ensure all appropriate ESG terms are included in contracts when contracts are amended, and fund sources are changed.</p>	<p><u>Target Date:</u> 9/30/2024</p>
<p>Rec. #2.2: OHS – Ensure monitoring procedures align with contract requirements and Federal guidance for site visits. If needed, amend contracts to align with the required site visit monitoring procedures.</p>	
<p>Response: OHS is following monitoring procedures to include site visits per contract requirements and federal guidance. OHS is communicating with contract partners selected for contract monitoring site visits scheduled for July/August 2024.</p>	<p><u>Target Date:</u> 8/31/2024</p>
<p>Rec. #2.3: OHS – Improve monitoring procedures to align with CoC best practices by assessing case management ratios for applicable contractors.</p>	
<p>Response: OHS will update contracts language moving forward to ensure all performance measures in contracts can be validated. OHS is committed to supporting a regional response to homelessness, up to and including adopting regional standards and performance measures in our contracts. Variances across programs are common based on the services provided by each provider (contractor). OHS will update contract language to reflect specific and measurable goals for all contracts moving forward.</p>	<p><u>Target Date:</u> 8/31/2024</p>

1 – Contract Monitoring

Background

According to the Federal government’s Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, pass-through entities that distribute funding to subrecipients are required to:

- Evaluate each subrecipient’s risk of non-compliance.
- Monitor activities of the subrecipient to ensure compliance.
- Review financial and performance reports.
- Follow-up to ensure that subrecipients take timely and appropriate action on all deficiencies.

Contractors are required to provide essential shelter services, such as case management, housing assistance, and referral to other resources. Contractors are permitted to use funds for the provision of these essential services, including, but not limited to, personnel, operating services, equipment, and administrative costs, depending on the agreed upon budget.

This audit included a review of HSD and OHS’ controls for monitoring 13 contracts. HSD functions as the owner of the contracts; OHS oversees the implementation of services and the monitoring of contractors. Testing included a review of 1) annual risk assessments, 2) monthly contractor expenses, 3) monthly contractor performance, 4) OHS site visits, and 5) corrective action documentation for any identified deficiencies.

Results

Between FY2023 and FY2024, HSD complied with annual risk assessment procedures for 10 of 13 (77%) emergency shelter services contracts. HSD did not perform risk assessments for three contracts as required by internal policy and Federal funding requirements.

HSD’s contract monitoring controls include performing an annual risk assessment for each contract. Risk assessment procedures include a rating of one (low risk), two (medium risk), or three (high risk) for each criteria on the assessment, and includes four broad categories – General, Legal, Monitoring/Audit, and Financial Stability.

We reviewed HSD’s risk assessments completed between July 2022 to December 2023. During this period, 10 of 13 active contracts had risk assessments performed. All 10 contracts were ranked as high risk. Risk assessments were not performed for three contracts. Neglecting to perform risk assessments increases the potential for non-compliance with Federal regulation, misuse of funds going unnoticed, and contractors not providing critical services. According to HSD staff, risk assessments should have

been performed for all contracts. Staff were unsure why risk assessments were not performed for these contracts.

Third-party fiscal monitoring was not performed, or scheduled to be performed, for ten contracts that met the defined criteria.

HSD's monitoring procedures require that annual fiscal monitoring be performed by a third-party vendor. HSD contracted with the vendor The Pun Group to provide fiscal monitoring. The PUN Group contract was initially valued at \$694K, with payment based on hourly rates of worked performed. Fiscal monitoring is to be performed under any of the following three conditions:

- New contracts.
- Contracts that were not audited the prior year.
- Contracts that were identified as having a high-risk on HSD's annual risk assessment.

In our review of HSD's fiscal monitoring, we noted inconsistencies between HSD's policy and actual monitoring performed or scheduled to be performed.

Fiscal Monitoring

Contract	Contractor	Start Date	Fiscal Monitoring Required	Fiscal Monitoring Performed	Scheduled for Next Year
145546	UMOM	July 2017	Yes – none prior year & high risk	No	Yes
156909	U.S. Vets	July 2022	Yes – new & high risk	No	Yes
157379	Lutheran Social Services	August 2022	Yes – new	No	No
157699	St. Vincent de Paul	November 2022	Yes – new & high risk	No	Yes
154921	Child Crisis Arizona	October 2022	Yes – new & high risk	Yes	Yes
154968	Homeward Bound	October 2022	Yes – new & high risk	Yes	Yes
154923	A New Leaf	October 2022	Yes – new & high risk	No	Yes
154896	UMOM	October 2022	Yes – new & high risk	No	Yes
154939	Community Bridges	October 2022	Yes – new & high risk	Yes	Yes
155179	CASS	October 2022	Yes – new & high risk	No	No
158575	St. Vincent de Paul	May 2023	No – next year	N/A	No

Contract	Contractor	Start Date	Fiscal Monitoring Required	Fiscal Monitoring Performed	Scheduled for Next Year
158746	Mercy House	June 2023	No – next year	N/A	No
158837	Chicanos Por La Causa	July 2023	No – next year	N/A	No

Fiscal monitoring should have been performed for 7 of 13 contracts that were not reviewed in the CY2022 period.

HSD noted that fiscal monitoring would not be performed for 3 of the 13 contracts that are in their first year. Of the seven contracts that should have been reviewed, two of these contracts were not scheduled for review in the next year, as required. Without consistent fiscal monitoring, the City is at risk for contractor misuse of funds, non-compliance with Federal requirements, and potential loss of future funding.

OHS had controls to monitor contractor payments and performance on a monthly basis. However, we identified exceptions that did not align with contractual requirements.

The emergency shelter services contracts require that contractors submit documentation monthly, including Contract Payment Requests (CPRs), verification of expenses, and various performance reports. While we reviewed 13 contracts in total, one contract had separate payment and performance requirements for families and single individuals. Therefore, for auditing purposes, these were treated as two separate contracts and we reviewed 14 total.

We reviewed monthly documentation for a selected period between FY2023 and FY2024. Testing included a validation of expenses, which totaled a combined \$1.2M, and the reported performance outcomes to determine if contractors complied with performance requirements.

Payments:

- All 14 contracts had records of detailed expenses (expense ledger) for all costs that were invoiced on the CPR.
- 13 of 14 contracts had all required back-up documentation to substantiate the expense ledgers and invoiced costs. One contract was missing documentation to substantiate costs totaling \$26,074.

OHS did not require the contractor UMOM to submit full back-up documentation for their expenses under the contract for services for families.

Performance:

- Six of 14 contracts had all of the required performance reports for the selected periods.
- All 14 contracts either did not meet or did not report on at least one contractual performance goal, such as the number of positive exits or the amount of total clients served. Additionally, the outcomes report for one contract did not align with the performance goals listed in the contract.

OHS did not require contractors to submit all of the reports listed in the contracts. OHS noted that some reports that were required in the contracts were not necessary for contractors to provide, and some performance goals did not align with actual projections. Additionally, we came across limitations with the Homeless Management Information System (HMIS) database where certain metrics were not tracked, including the completion timeframe of intake paperwork and assessments, and verification of referral to the Maricopa Regional Coordinated Access System.

OHS had controls in place to monitor contractor expenses and to ensure budgets were not overspent.

OHS staff tracked budget and expenditures monthly with each of the payment requests received from each contractor.

We compared contractor payments recorded in the City's financial system, SAP, and OHS' internal tracking documentation. Internal tracking documentation included workbooks that had each month's CPR form, a detailed expense ledger for each month's billing period, and a summary detail that showed how much funds had been exhausted and remained per line item. We reviewed either the final month of FY2023 that was billed for the contract, or the most recent payment for FY2024 contracts.

Testing included 1) a reconciliation of contractor payments with the monthly expenses tracked by OHS, and 2) a review of contractor total payments to determine if the contract budget was overspent.

Contractor expenses were within the overall budget. However, we noted a few minor exceptions with three contractors where payments were not reflected on OHS' internal tracking documentation. These exceptions were due to either advance payments occurring in prior periods or mathematical errors. The exceptions did not have an impact to each contractor's overall budget as they were corrected in subsequent months.

Recommendations

- 1.1 HSD – Improve monitoring controls by performing risk assessments for contracts that were not assessed in FY2023-FY2024, and ensuring risk assessments are performed annually for all emergency shelter contracts.

- 1.2 HSD – Improve monitoring controls to ensure that fiscal monitoring is performed for the remaining contracts, as required by internal policy.
- 1.3 OHS – Ensure supporting documentation is on file to substantiate contractor and subcontractor expenses. Obtain missing documentation and/or recover funds from unsubstantiated payments.
- 1.4 OHS – Document and improve monitoring controls to ensure contractors track, report on, and meet contractual performance requirements. Evaluate and update contracts as necessary to ensure that performance requirements are reasonable.

2 – Federal Requirements and Best Practices

Background

The City received \$27M in Federal grants, including Emergency Solutions Grants (ESG) and Community Development Block Grants (CDBG), to provide emergency shelter services for individuals and families experiencing homelessness. The City engaged in contracts with non-profit organizations to ensure that grant funding was used appropriately and effectively for the contracted services.

Applicable Federal requirements for service delivery include:

- An emergency shelter component.
- Data management component.
- Indirect cost allowances.
- Area-wide system of coordination requirements.
- Evaluation of program participant eligibility and needs, and shelter and housing standards.
- Participation from homeless individuals.

Additionally, homeless service providers in Phoenix are part of the Maricopa Regional Continuum of Care (CoC), which is comprised of coordination between all providers. The CoC published guidance for providers to ensure compliance with industry standards and best practices for operating these programs. The CoC's best practices include, but are not limited to:

- Assessing the effectiveness of the program.
- Participating in the use of HMIS.
- Establishing a process to receive client feedback.
- Implementing minimum professional development and staffing requirements.
- Implementing a reasonable ratio of case managers to clients.
- Offering support services.
- Coordinating with other service providers to prioritize the client's unique needs.
- Preventing family separation.
- Creating service plans within 72 hours of the client entering shelter.
- Connecting the client with a navigator.
- Evaluating compliance with best practices annually.

Testing included a review of contract terms to determine if contracts aligned with Federal requirements for service delivery and the CoC's best practices in the field.

Results

Contracts aligned with Federal requirements, and OHS performed site visits to monitor vendor compliance. However, site visits were not performed for all contracts.

The emergency shelter contracts included language that aligned with the applicable Federal funding requirements noted above. All contracts explicitly state that subrecipients are to comply with Federal and grant requirements. However, one contract was missing specific mention of shelter and housing standards, and three contracts were missing specific mention of incorporating homeless participation, both of which are program requirements of ESG funding.

OHS performed site visits of some subrecipients to determine if they followed all the above-mentioned funding requirements, including minimum habitability (shelter and housing) standards and grievance procedures (participation from homeless individuals), which were omitted from a few contracts. In our review, we found that OHS does assess these items during site visits, and that the subrecipients that were missing the specific terms in their contracts were in fact in compliance with the requirements.

For subrecipients that were found to have deficiencies during the site visit, OHS issued findings, such as incomplete client records and absence of required procedures. These findings resulted in corrective action, which the subrecipients had implemented. Overall, OHS had sufficient controls to ensure subrecipients were aware of and complied with Federal grant requirements.

In our review, we found that OHS did not perform site visits for five contracts. OHS staff reported that site visits were only performed for subrecipients that received ESG funding. The subrecipients that were not visited were either funded by another funding source (CDBG, ARPA, general funds) or were funded by ESG after the site visits were performed. Neglecting to perform shelter site visits poses a risk to clients; shelters that are not visited could potentially have deficiencies in habitability standards, safety, and case management that could go unnoticed.

Emergency shelter contracts required subrecipients to participate in the Maricopa Regional Continuum of Care (CoC). Controls can be improved to ensure case management ratios align with CoC best practices.

We reviewed contracts to determine if the City required subrecipients to follow best practices for emergency shelter providers. All 13 contracts indicate that subrecipients are to comply with CoC protocol.

OHS' monitoring controls included site visits that assessed for:

- Documented case management referral and progress notes.
- Participation in coordinated entry and assessment.

- Established policies and procedures to ensure that providers do not deny admission to a family based on the age of any child under 18.
- Homeless certification of clients within 72 hours.
- Documented housing service plan, HMIS intake, and assessments.
- Alignment with the Maricopa Regional CoC Standards of Excellence.

We found that OHS did not include a review of the subrecipient's case management ratio. We found that the ratios for multiple contracts varied drastically among the caseworkers assigned to each client during the reviewed periods. The caseworker to client ratios assigned in HMIS for one contract ranged from 1:1 to 1:128 for 340 active clients in June 2023. OHS staff noted that staffing issues continue to be an ongoing matter for emergency service providers, which impacts the caseworker ratios.

Recommendations

- 2.1 HSD – Amend contracts to include terms that align with ESG requirements for contracts that use ESG funds.
- 2.2 OHS – Ensure monitoring procedures align with contract requirements and Federal guidance for site visits. If needed, amend contracts to align with the required site visit monitoring procedures.
- 2.3 OHS – Improve monitoring procedures to align with CoC best practices by assessing case management ratios for applicable contractors.

Attachment A – Emergency Shelter Contracts

Contract Number	Contract Name	Vendor	Contract Value
145546	Emergency Shelter Services for Single Women and Families	UMOM New Day Centers	\$8,316,000
154921	COVID-19 Related Homeless Services – Emergency Shelter	Child Crisis Arizona	\$1,196,459
154968	COVID-19 Related Homeless Services – Emergency Shelter	Homeward Bound	\$1,471,301
156909	COVID-19 Essential Services and Shelter Operations for At-Risk Veterans and Families	U.S. Vets	\$500,000
157379	COVID-19 Homeless Outreach, Navigation, and Emergency Shelter Services	Lutheran Social Services	\$930,865
157699	Emergency Shelter Services at Washington Relief Center	St. Vincent de Paul	\$4,000,000
158575	Emergency Shelter Services at City Center Motel	St. Vincent de Paul	\$3,844,616
158746	Hotel Shelter Program	Mercy House Living Centers	\$3,480,038
158837	Emergency Crisis Shelter for Families	Chicanos Por La Causa	\$180,000
154923	COVID-19 Related Homeless Services – Emergency Shelter Services	A New Leaf	\$129,129
154896	COVID-19 Related Homeless Services – Emergency Shelter Services	UMOM New Day Centers	\$1,529,000
154939	COVID-19 Related Homeless Services – Emergency Shelter Services	Community Bridges	\$371,223
155179	COVID-19 Related Homeless Services – Emergency Shelter Services	CASS	\$1,035,254
		Total	\$26,983,885

Scope, Methods, and Standards

Scope

This audit included a review of emergency shelter contracts that were valid in FY2023 and/or FY2024, and any related documentation during this period, including payments, performance reports, internal documentation, and contractor data.

The internal control components and underlying principles that are significant to the audit objectives are:

- Risk Assessment
 - Management should evaluate performance and hold individuals accountable for their internal control responsibilities.
 - Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
- Control Activities
 - Management should identify, analyze, and respond to risks related to achieving the defined objectives.
 - Management should design control activities to achieve objectives and respond to risks.
- Information and Communication
 - Management should externally communicate the necessary quality information to achieve the entity's objectives.
- Monitoring Activities
 - Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
 - Management should remediate identified internal control deficiencies on a timely basis.

Methods

We used the following methods to complete this audit:

- We interviewed staff at HSD and OHS.
- We reviewed contract and funding requirements.
- We reviewed internal documentation for tracking contractor compliance.
- We reviewed data from the HMIS database.
- We performed testing to determine if strong controls were in place.

Unless otherwise stated in the report, all sampling in this audit was conducted using a judgmental methodology to maximize efficiency based on auditor knowledge of the population being tested. As such, sample results cannot be extrapolated to the entire population and are limited to a discussion of only those items reviewed.

Data Reliability

We assessed the reliability of HMIS data by (1) performing electronic testing, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that this data was sufficiently reliable for the purposes of this audit.

Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Any deficiencies in internal controls deemed to be insignificant to the audit objectives but that warranted the attention of those charged with governance were delivered in a separate memo. We are independent per the generally accepted government auditing requirements for internal auditors.