



**Testimony on behalf of Volunteers of America-Greater New York
The New York City Council Committee on Contracts
Oversight - Evaluating Progress of Reforms to Accelerate Nonprofit Contract Payments
June 4, 2024**

Introduction and Thanks

My name is Catherine Trapani, and I am the Assistant Vice President for Public Policy for Volunteers of America-Greater New York (VOA-GNY). We are the local affiliate of the national organization, Volunteers of America, Inc. (VOA). I would like to thank Chair Won and members of the Committee for the opportunity to submit testimony for this hearing.

About Us

VOA-GNY is an anti-poverty organization that aims to end homelessness in Greater New York through housing, health and wealth building services. We are one of the region's largest human service providers, impacting more than 12,000 adults and children annually through 70+ programs in New York City, Northern New Jersey, and Westchester. We are also an active nonprofit developer of supportive and affordable housing, with a robust portfolio permanent supportive housing, affordable and senior housing properties—with more in the pipeline.

Overview of Payment Process and Current Challenges

We are grateful for the City's commitment to improving the procurement process. While substantial changes have been made to streamline the contracting and payment process, we have found the implementation of key reforms to be uneven and sometimes counterproductive.

Contracts continue to be registered late and once registered, payments are often slow. While bridge loans should be available, we have found that resource to be limited and are often told that our needs are not a priority or, that the fund may not have sufficient dollars to support our operations. Therefore, to bridge the gap in funding, VOA-GNY has been forced to rely on our line of credit and incur interest costs that are not reimbursable. Last fiscal year, VOA-GNY spent \$700,000 on interest fees in order to keep our NYC contracted programs running and project spending \$1,000,000 in interest fees for FY25.

The PASSPort system was created to improve timely contracting and payment but, it continues to be plagued with issues stymying progress:

- The timing of the migration of invoices from HHS Accelerator into PASSPort financials caused significant payment delays. Despite VOA-GNY submitting invoices prior to the cutoff dates provided for HHS, the City did not clear the backlog of HHS invoices prior to the migration such that most of those invoices were rejected and we were forced to re-enter into PASSport upon the migration being completed.

- Migration of budgets from Accelerator to PASSPort was done incorrectly causing errors making it impossible for nonprofits to invoice until the budget migration issues were resolved.
- VOA-GNY has been informed that the impact of these delays will not be limited to the current fiscal year and are likely to impact timely registration for FY2025 as well.
- In addition to migration issues, the PASSPort system itself has limited functionality.
 - o Contracts awaiting signature cannot be viewed by nonprofits in PASSPort. The system only displays the signature page depriving nonprofits the opportunity to review critical documents before signing. Because we cannot sign something we haven't had the opportunity to read, we have experienced significant delays in contract registration due to this system-level flaw. In one instance, VOA-GNY waited 3 months for a copy of a contract pending signature and was only successful in receiving it after elevating the issue to the Commissioner of MOCS.
 - o It is still not possible for the system to allow providers to invoice while any other action on the contract is pending even if the value of the invoice is low enough to not be impacted by any other pending modifications on the contract or budget. This means that you cannot invoice for services rendered while awaiting approval of a budget modification of any amount, robbing providers of needed flexibility to manage program budgets effectively.
 - o The system does not allow for partial payment. This means that if the agency has a question or dispute about 1 item on an invoice, no monies can be released until that one item is resolved. Nonprofits must withdraw the entire request for payment and resubmit in order to get paid
 - o Because the system is buggy and the user interface unintuitive, program staff still routinely field requests for documentation from the contracting agency via email and are often asked to upload the same materials for numerous contracts in PASSPort in addition to emailing them to staff at the contracting agency.

Planned budget cuts for the Mayors Office of Contract Services (MOCS) will only exacerbate these issues by undermining their technology budget and by reducing headcount. We urge the City to consider restoring MOCS's budget cuts to ensure they have the resources necessary to solve these problems.

At the contracting agency level, adherence to Citywide policy on timely payment also continues to be an issue.

- The Department of Homeless Services only allows providers to submit 2 invoices at any given time to control their workflow, meanwhile, providers are unable to submit invoices for payment that often stack up while awaiting contract registration. The result is that providers are never able to invoice in real time, further delaying payments even after a contract is registered.
- The agency also routinely asks for 100% up front verification of expenses prior to payment even though the policy is designed to have most of those reviews happen on the backend, post-payment.
 - o These reviews can be particularly time consuming because not only does the finance team have to approve the payment but so do program analysts and

administrators. Because so many people are reviewing the same materials, it is not unusual for the invoice to be returned more than once by different staff for revision. Each time invoices are re-submitted to respond to issues flagged by various reviewers, they must go through each stage of the approval process again, even if the invoice had previously cleared one of the stages of review. It takes an average of 12 levels of approval before a payment is made.

- Invoices are often delayed awaiting approval from the program teams since the staff at the agency at the program level responsible for approval invoices is the same staff that are also tasked with field supervision and programmatic oversight limiting their availability to sit and review pending invoices. There are simply not enough hours in the day for the average program analyst to fulfill both their fiscal and programmatic oversight duties in a timely manner, particularly given the size of the backlog.

In addition to these process related reasons for payment delays, some contracts have structural issues that impact the City's ability to pay VOA-GNY on time for our services. HRA has short-funded several contracts for our SRO Supportive Housing such that while the agency is aware that the costs of operating the program for the duration of a multiyear contract is higher than the budgeted amount in the system. Rather than right-size the contract amount prior to registration, the agency registers the contract without sufficient funding and asks us to amend it half-way through the contract period to encumber the required funds in the out-years of the contract when those years come up. Because the agency does not allow us to begin the process to amend the contract until the short funded year us upon us, there are delays in payment every time.

A better solution: Consolidated Fiscal Reporting

As I have outlined, New York City's contract and payment system is riddled with inefficiencies making slow payment a nearly inevitable function of its design. In contrast, New York State's contracting and fiscal reporting model features a healthy amount of oversight but also allows for prompt payment. That system is known as Consolidated Fiscal Reporting. In that model, once the State selects a vendor to provide a service, they negotiate the budget and register the contract. At that point and in each quarter of the contract period, the vendor/provider is issued a 25% advance and is permitted to draw down funds as expenses are incurred. At the end of the quarter, the provider works with the contract agency to report on how those monies were spent reconciling any differences between expenses and budgeted amounts. This process repeats each quarter until close such that every quarter there is the opportunity to reconcile, adjust and report on spending but, because the funding is advanced each quarter, the provider is not left waiting to drawn down dollars necessary to conduct business. Consolidated Fiscal Reporting also allows providers with multiple contracts for the same service (for example, operating several housing programs with the same scope of services at different sites) to consolidate reporting across contracts reducing duplication while preserving oversight. We strongly urge New York City to adopt a similar approach which balances the need for oversight with the practical needs of service providers who need to access funds to effectively do their work.

Legislation

VOA-GNY is deeply appreciative of the Council's attention to the myriad of issues plaguing the nonprofit sector and your legislative efforts to improve the situation. We respectfully offer the following comments on selected bills before the committee today.

- [Int 514](#) - By Council Members Brannan, Yeger, Hanif and Brewer - A Local Law to amend the administrative code of the city of New York, in relation to interest to be paid on late contract payments to non-profit contractors.

VOA-GNY strongly supports the intent of this legislation which would make interest a reimbursable expense when the City of New York fails to pay for services on time. Our one note of caution regarding the language of the bill is that, as written, it may mean that while providers could bill the City for interest payments, that funding may come out of the monies budgeted for programming. While in some instances, that may mean that providers simply serve fewer people (an outcome that is undesirable but possible), shelter providers do not have the option to reduce services because our clients are in residence irrespective of when the contract is scheduled to renew. Regardless, our costs are fixed regardless of occupancy and, there is a right to shelter making scaling back programs impractical in any case. Therefore, while we could in theory be reimbursed for interest payments, unless new funding is added to the contract to pay this cost, we would still be operating at a deficit.

The second flag we have for the bill as written is that the "The applicable interest rate for such interest payments shall be the rate set by the commissioner of taxation and finance for corporate taxes pursuant to paragraph (1) of subsection (e) of section 1096 of the tax law". This seems unnecessarily complicated; if the Council wishes to make interest payments reimbursable, the rate should be paid at the actual interest rate charged to the nonprofit provider.

- [Int 243](#) - By Council Members Hudson, Ayala, Won and Restler - **A Local Law** to amend the administrative code of the city of New York, in relation to indirect costs of nonprofit city service contractors.

While we appreciate the intent of this bill, we have concerns that by requiring the City to adopt a specific methodology to set indirect rates that differs from what providers already spent significant resources to establish under the current Indirect Cost Rate Initiative. Instead of mandating a new methodology entirely, we would encourage the City to first pay out all monies owed on the existing initiative. Next, we recommend a review of the existing cost manual and changes to address aspects that have been problematic when trying to implement the policy. Changes we would seek include but are not limited to allowing providers to draw down indirect funds on budgeted spending rather than limiting claiming the rate based on actual spending, reexamining the exclusion of certain subcontracts in the cost base and, other issues. The key issues to consider are that indirect costs are fixed and are a function of what it takes to successfully operate an organization capable of delivering the services required under the human services contract. Artificially reducing the cost base on which indirect can be applied shrinks available resources to support those costs even though they are fixed forcing nonprofits to operate at a deficit.

- **Int 508** - By Council Members Brannan, Yeger and Hanif - **A Local Law** to amend the New York city charter and the administrative code of the city of New York, in relation to reporting of promptness of agency payments to contractors.

For the purpose of being able to better manage and plan cashflow, it would be helpful to establish timeframes that govern what constitutes timely payment and, to hold the administration accountable for these timeframes via regular reporting.

- **Int 801** - By Council Members Won, Brooks-Powers, Louis, Stevens, Farías, Banks and Williams - **A Local Law** to amend the administrative code of the city of New York, in relation to explanations for subcontractor denials in city contracting.

Homeless services providers like VOA-GNY have experienced many challenges related to getting subcontractors approved in a timely manner. The City's policy for subcontract approval (known as "65a" for the related form) is cumbersome and, for providers already operating shelter programs, any delays in subcontractor approval places providers in a precarious position of having to work with vendors that have yet to be approved to avoid disruption of critical services like food and security; this arrangement forces nonprofits to absorb all of the financial risk while waiting for the City to make a determination on the subcontractor. In many cases, the pool of eligible vendors for certain services is not large and, therefore many vendors for certain services have opted out of the bidding process due to the volume of requests making it difficult for providers to meet the threshold for the required number of bids. When you are left with a relatively small pool, to have a selected vendor rejected can be problematic since in most cases, providers will already have expended funds to vendors pending approval given the need for continuity of care. Intro 801 begins to try and solve for such problems by requiring an explanation for denials but, what would be more helpful would be a faster approval process with more assistance in either broadening the pool of subcontractors, such as continuing to host WMBE fairs or, by accepting attestations that alternative vendors cannot be found in instances where there are no qualified, available alternatives.

Conclusion

Thank you for the opportunity to testify. We are grateful to the Council for your commitment to supporting the nonprofit sector. Should you have any questions or require further information I can be reached at ctrapani@voa-gny.org or 917-658-0435.