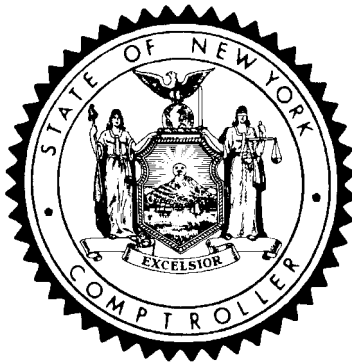


***State of New York  
Office of the State Comptroller  
Division of Management Audit  
and State Financial Services***

**NEW YORK CITY ADMINISTRATION  
FOR CHILDREN'S SERVICES**

**PAYMENTS TO DAY CARE  
PROVIDERS**

**REPORT 98-N-11**



***H. Carl McCall***  
*Comptroller*



# State of New York Office of the State Comptroller

---

---

## Division of Management Audit and State Financial Services

### Report 98-N-11

Mr. Nicholas Scoppetta  
Commissioner  
New York City Administration for Children's Services  
80 Lafayette Street  
New York, NY 10003

Dear Mr. Scoppetta:

The following is our report on selected financial management practices of the Administration for Children's Services relating to payments to day care contractors.

Our audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article III of the General Municipal Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller  
Division of Management Audit  
and State Financial Services*

May 1, 2000

---

---

## Executive Summary

---

---

# New York City Administration for Children's Services - Payments to Day Care Providers

---

---

### Scope of Audit

The New York City Administration for Children's Services (ACS) contracts with about 260 private, not-for-profit organizations operating child care programs to provide subsidized day care for eligible children. This agency, formerly known as the Child Welfare Administration, was part of New York City's Human Resources Administration (HRA) before it was made a separate agency through Executive Order on January 11, 1996. ACS' Agency for Child Development (ACD), which was transferred from HRA as of July 1, 1998, administers the day care program which serve about 54,000 children daily. To be eligible for these programs, children must reside in New York City and meet certain other requirements relating to family income, family size and the reason for which day care is needed. Many of the children participate in programs provided by not-for-profit contractors. During the fiscal year ended June 30, 1998, about 260 such contractors provided programs for ACS. To provide assurance that its payments to these contractors are consistent with the services provided by the contractors, ACS relies on audits conducted by independent auditors hired by the contractors.

About half the cost of ACS's day care programs is funded by the Federal government, about one-quarter is funded by New York State, and about one-quarter is funded by New York City. ACD's budget for the fiscal year ended June 30, 1999 was almost \$344 million. Our financial-related audit addressed the following question about selected ACS financial management practices for paying day care contractors providing services during the period July 1, 1997 through March 31, 1999, as well as certain other related operating practices of ACS through October 31, 1999:

- ! Have the internal controls established by ACS provided reasonable assurance that the payments made to day care contractors are supported by the contractors' records and are otherwise in accordance with the requirements of the contracts?

---

### Audit Observations and Conclusions

Improvements are needed in ACS's internal controls over its payments to day care contractors. For example, because the audits of the contractors are not always conducted in accordance with ACS requirements, they are less likely to provide the assurance sought by ACS concerning the appropriateness of the payments to the contractors. In addition, because ACS managers would not provide us with full access to information and staff, we could not determine whether the payment errors identified by our audit were isolated to the three selected day care contractors we reviewed or indicative of systemic problems.

---

---

If an organization lacks an effective system of internal control, it is less likely to accomplish its objectives. We evaluated the adequacy of ACS's internal controls and found that a number of improvements are needed. For example, because ACS managers did not maintain certain financial information about the day care contracts, they are less likely to be effective in managing and controlling day care costs. We found that ACS made a \$90,000 error during the payment process; since we did not have the access we needed to ACS information and staff, we could not determine whether this error was an isolated incident or indicative of systemic problems. (See pp. 7-11)

ACS has developed formal guidelines governing the independent audits of the day care contractors. The purpose of the guidelines is to ensure that the audits are conducted in a manner that provides ACS with reasonable assurance that its payments to the contractors are supported by the contractors' records and are otherwise in accordance with the requirements of the contracts. However, when we examined ACS's formal audit guidelines, we found that some of the officials' expectations were not included in the guidelines, and as a result, the expected work was not always performed by the independent auditors. ACS officials agree that their audit requirements could have been better communicated to the auditors, and told us corrective action has been taken. (See pp. 13-16)

ACS has also established controls over the advances paid to contractors, the reimbursement of contractors' indirect expenses, and the process used to report attendance at the contractors' day care centers. We found that improvements are needed in the controls over each of these areas. For example, we determined that one of the three selected contractors was advanced funds far in excess of its needs. (See pp. 16-18)

---

## **Comments of ACS Officials**

ACS officials agreed with our recommendations and indicated steps that are being taken to address them.

---

---

---

# Contents

---

---

<b>Introduction</b>	Background . . . . .	1
	Audit Scope, Objective and Methodology . . . . .	2
	Internal Control and Compliance Summary . . . . .	4
	Response of Administration for Children’s Services Officials . . . . .	4

---

<b>Internal Controls</b>	Control Environment . . . . .	7
	Information and Communication . . . . .	8
	Assessing and Managing Risk . . . . .	9
	Control Activities . . . . .	10
	Monitoring . . . . .	10
	Recommendations . . . . .	11

---

<b>Contractor Payment Process</b>	Independent Audits of Contractors’ Revenues and Expenses . . . . .	13
	Recommendations . . . . .	16
	Reimbursement of Indirect Expenses . . . . .	16
	Recommendation . . . . .	17
	Payment of Advances . . . . .	17
	Recommendations . . . . .	18

---

<b>Appendix A</b>	Major Contributors to This Report
-------------------	-----------------------------------

---

<b>Appendix B</b>	Response of Administration for Children’s Services Officials
-------------------	--

---

---

---

# Introduction

---

---

## Background

The New York City Administration for Children's Services (ACS) contracts with about 260 private, not-for-profit organizations operating child care programs to provide subsidized day care for eligible children who live within the five boroughs. This agency, formerly known as the Child Welfare Administration, was part of New York City's Human Resources Administration (HRA) before it was made a separate agency through Executive Order on January 11, 1996. The mission of ACS is to ensure the safety and well-being of New York City's children. In addition to day care programs, ACS also administers adoption programs, foster care programs, child abuse prevention programs, child support enforcement programs, and the Head Start pre-school educational program.

The day care programs are administered by ACS's Agency for Child Development (ACD), which was transferred from HRA to ACS as of July 1, 1998. ACD administers more than 400 different day care programs serving 54,000 children daily. Eligibility for ACD's day care programs is based on gross family income, family size and the reason for which day care is needed. Also, ACS purchases a limited number of spaces for eligible children in private programs, and issues vouchers that eligible families can use to purchase care from a provider of their choice. During this audit, we learned that the New York City Department of Investigation is conducting a criminal investigation of ACS practices related to the issuance and use of day care vouchers. The investigation involves allegations that day care vouchers may have been issued to persons regardless of their income, family size and need. The vouchers covered under this program were not the subject of this audit. ACD's budget for the fiscal year ended June 30, 1999 was almost \$344 million.

ACS day care operations are overseen by the New York State Office of Children and Family Services (OCFS), which reimburses ACS for a portion of the eligible payments made to the day care contractors. Generally, New York State (State) is responsible for 25 percent of all day care program costs; the City is responsible for another 25 percent; and the Federal government is responsible for the remaining 50 percent. In some instances, the City incurs additional costs because it pays expenses that are not eligible for reimbursement from Federal or State funds. In addition, relatives, or other adults responsible for the children, sometimes pay a portion of the cost of care (family fees). For the City's fiscal year that ended on June 30, 1998, the City paid approximately 31 percent of the cost of ACS's day care operations.

The contracts between ACS and the private day care providers identify the number of children to be served and the types of expenses to be reimbursed

---

---

by ACS. During the contract period, which generally covers more than one year, ACS advances funds to the contractor on the basis of the contractor's expected revenues (such as family fees) and expected expenses. At the end of each contract year, in a procedure referred to as the contract closeout, ACS compares the amount advanced for the period to the actual revenues and expenses for the period as reported by the contractor. The reported revenues and expenses must be audited by an independent auditor hired by the contractor. The reported expenses are audited to ensure that they are genuine and reimbursable under the contract. Any amounts advanced to the contractor in excess of the contractor's revenues and reimbursable expenses should be refunded to ACS.

---

## **Audit Scope, Objective and Methodology**

We audited selected financial management practices established by the City for paying day care contractors that provided services during the period July 1, 1997 through March 31, 1999, as well as certain other related operating practices of ACS through October 31, 1999. The objective of our financial-related audit was to determine whether the internal controls established by ACS provided reasonable assurance that the payments made to day care contractors were supported by the contractors' records and were otherwise in accordance with the requirements of the contracts. While our audit was not intended to specifically evaluate the accuracy of the payments made to the three contractors we reviewed during our audit period, we did identify selected potential overpayments to illustrate the consequences of internal control weaknesses.

To meet our objective, we focused on the payments made to the following three judgmentally-selected contractors:

<b>Contractor</b>	<b>Number of Children To Be Served for Year Ended 6/30/98</b>	<b>Contract Amount for Year Ended 6/30/98</b>
A	15	\$117,669
B	606	\$3,699,685
C	839	\$5,112,210

We selected Contractor B and Contractor C because, compared to other ACS contractors, they cared for a relatively large number of children. We selected Contractor A to evaluate ACS' experience with a smaller contractor.

We examined records maintained by the three selected contractors as well as records maintained by the contractors' independent auditors. In particular, when we visited the three contractors, we reviewed their accounting records,

---

---

attendance books, canceled checks, fee agreements, receipts for purchases, and other documents relating to the services provided under the contracts. We also reviewed ACS procedures for making payments to day care contractors, and interviewed officials of the three contractors, their auditors, and ACS.

As is our practice, we notify agency officials at the outset of each audit that we will be requesting a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. In the representation letter, agency officials assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. Agency officials further affirm that either the agency has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors.

However, officials at the New York City Mayor's Office of Operations have informed us that, as a matter of policy, Mayoral agency officials will not provide representation letters in connection with our audits. As a result, we lack assurance from ACS officials that all relevant information was provided to us during this audit. We consider this refusal to provide a representation letter to be a scope limitation on our audit. Therefore, readers of this report should consider the potential effect of this scope limitation on the findings and conclusions presented in this report.

In addition, during the course of our audit, ACS management did not always provide us with access to information and staff as we requested. In particular, even though we requested contract payment records and other documentation relating to the contract closeout process, ACS did not provide much of this information and provided some of the information only after unreasonably long delays. While we were able to satisfy our overall audit objective by relying on payment data provided by the three selected contractors, the progress of our audit was significantly delayed. We consider this lack of cooperation on the part of ACS management to be a scope limitation on our audit. Therefore, readers of this report should consider the potential effect of this additional scope limitation on the findings and conclusions presented in this report.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of ACS which are included in our audit scope. Further, these standards require that we understand ACS's



---

internal control structure and compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an “exception basis.” This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

---

## **Internal Control and Compliance Summary**

Internal controls are the integrated activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will fulfill its mission. They encompass a comprehensive system that helps an organization manage risk and enables its programs and administrative activities to operate efficiently and effectively. An effective internal control system typically sets standards in five critical areas: control environment, information and communication, control activities, risk assessment, and monitoring. Our evaluation of ACS’s internal controls identified significant weaknesses in the areas of the control environment, information and communication, and control activities. These weaknesses are discussed in detail in the section of this report entitled “Internal Controls.” Our audit identified no significant instances of noncompliance with laws, rules and regulations.

---

## **Response of Administration for Children’s Services Officials**

A draft copy of this report was provided to ACS officials for their review and comment. Their response has been considered in preparing this final report and is included as Appendix B.

ACS officials agreed with our findings, and indicated steps they are taking to implement our recommendations. Their response demonstrates a commitment to improve controls over the payment process to day care contractors.

---

Within 90 days after final release of this report, we request the Commissioner of the Administration for Children's Services to report to the State Comptroller, advising what steps were taken to implement the recommendations contained in this report, and where recommendations were not implemented, the reasons therefor.



---

---

# Internal Controls

---

---

Management is responsible for establishing, maintaining and monitoring appropriate systems of internal control. An effective system of internal control is essential in order for an agency to accomplish its mission and objectives. The five interrelated components to a good internal control system include the control environment, risk assessment, control activities, information and communication, and monitoring.

We found that ACS management was not effective in communicating its requirements for the independent audits of the day care contractors' revenues and expenses. We also found that ACS management did not maintain sufficient information for the effective management of the day care contracts. In addition, ACS management would not provide us with full access to information and staff, and did not effectively control certain aspects of the contractor payment process. We therefore conclude that improvements are needed in ACS's information and communication, control environment, and control activities. We were unable to assess the adequacy of ACS's risk assessment and monitoring practices, because we were denied access to the information that we needed to make these assessments.

ACS officials agree that improvements need to be made in the internal controls relating to the contractor payment process. They told us they have initiated a number of such improvements since ACD was transferred from HRA to ACS. They believe the controls will be significantly strengthened once these improvements have been fully implemented.

---

## Control Environment

The control environment in an organization is a reflection of the attitude toward internal control and the level of control consciousness established and maintained by the management and employees of that organization. It is a product of management's philosophy, style, and supportive tradition, as well as the competence, ethical values, integrity, and morale of the organization's employees. Management can demonstrate its support for good internal control by affirming the value of external audits.

As a result of the scope limitations previously discussed, we could not determine whether the controls established by ACS provide reasonable assurance that the data used in the closeout process is accurate. Instead, to satisfy our audit objective, we had to rely on the payment data provided by the three day care contractors in our sample.

In our discussions with the three contractors, we found that the data used by ACS in the contract closeout process is not always accurate. Specifically, during Contractor B's closeout process in February 1999, the contractor was

---

erroneously instructed by ACS to repay almost \$72,000, when the contractor was actually owed more than \$18,000 by ACS for unreimbursed contract expenses. We worked together with the contractor to pursue a resolution of this matter, until ACS officials acknowledged that about \$90,000 in advances were never received by the contractor. (According to ACS officials, these advances had been canceled by HRA when ACD was still a part of HRA, but ACS officials were never informed of the cancellations by HRA.) Since the officials at Contractor A and Contractor C did not understand the closeout information provided by ACS, they were not able to determine whether their information contained such errors.

Because ACS officials did not provide us with the information we requested about the contract closeout process, we were unable to determine whether this \$90,000 error was an isolated incident or indicative of systemic problems. The officials told us that they share our concerns about the accuracy of the data used in the closeout process and intend to implement or add the necessary controls to ensure that the data is accurate.

---

## **Information and Communication**

Communication is the exchange of useful information between and among people and organizations to support decisions and coordinate activities. Within an organization, information should be communicated to management and the other employees who need it in a form and within a time frame that helps them carry out their responsibilities. It is also important to communicate effectively with outside parties such as customers, suppliers and contractors.

Many of the day care programs administered by ACS are provided by contractors. During the contract closeout process, ACS seeks assurance that its payments to these contractors are supported by the contractors' records. To receive this assurance, ACS relies on independent audits of the contractors' reported revenues and expenses. If these audits are to provide the assurance sought by ACS, they must be conducted in a manner that will satisfy ACS's objectives. Therefore, the manner in which the audits are to be conducted must be effectively communicated to the contractors and the independent auditors.

ACS has developed formal guidelines for the audits of the contractors' revenues and expenses. However, as is explained in greater detail in the section of this report entitled "Contractor Payment Process," some of ACS's requirements for the audits were not included in the guidelines, and the guidelines themselves were not effectively communicated to the contractors and the independent auditors. As a result, the audits were less likely to provide assurance that ACS's payments to the contractors were in fact supported by the contractors' records.

---

As part of the contract closeout process, ACS sends each contractor a formal closeout statement. This statement contains information about the contractor's revenues and expenses under the contract, and should be reviewed by the contractor to ensure it is accurate. However, we were told by officials of Contractor A and Contractor C that they cannot verify the accuracy of the closeout statements sent by ACS, because the statements generally are not comprehensible to them. We therefore conclude that the communication between ACS and these contractors needs to be improved.

Families with higher incomes may be required to pay for part of the cost of the day care services provided by the contractors. ACS's payments to a contractor should be reduced by the amount of such family fees owed to the contractor. To ensure that its payments are reduced by this amount, ACS needs to maintain information about the families that owe such fees and take this information into account during the contract closeout process. However, ACS officials were unable to provide us with this kind of information about family fees. As a result, the amounts paid to contractors by ACS may be higher than necessary.

If ACS is to effectively manage the cost of its day care programs, it needs to be able to distinguish direct program costs from administrative costs, and ensure that the administrative costs do not become excessive. However, we found that ACS officials do not maintain this kind of information, as they do not separately identify direct program costs and administrative costs. In the absence of this information, ACS officials are less likely to be effective in managing and controlling day care costs. ACS officials agree that this kind of information should be maintained; however, because of the difficulties involved in transferring day care responsibilities from HRA to ACS, they have been delayed in establishing all the information systems needed for the day care operations. However, they indicated in their response that steps are being taken to address this issue.

---

## **Assessing and Managing Risk**

Every organization faces a variety of risks from external and internal sources. Risk assessment is the identification and analysis of the risks relevant to an organization's objectives. Through risk assessment, managers identify and analyze the risks that can jeopardize the achievement of these objectives, and determine how best to manage these risks. In accordance with New York City Directive #1, all City agencies are required to perform a formal risk assessment of their operations. We asked to review the risk assessment that had been done for ACS's operations, but we were informed that, as a matter of policy, the New York City Mayor's Office of Operations will not permit us to review such risk assessments. ACS would not provide alternative documentation or evidence of their risk assessment efforts. As a result, we were unable to evaluate the adequacy of ACS's methods of assessing and managing risk.

---

## **Control Activities**

Control activities help prevent or reduce the risks that can impede accomplishment of an organization's objectives and mission. To operate the organization effectively and efficiently, management should establish and implement such control activities. In an effort to provide reasonable assurance that its payments to day care contractors are supported by the contractors' records and are otherwise in accordance with the requirements of the contracts, ACS has established and implemented a number of control activities, such as the independent audits of the contractors' revenues and expenses. However, as is described in greater detail in the section of this report entitled "Contractor Payment Process," we identified certain deficiencies in some of these control activities. In particular, we identified deficiencies in the controls for ensuring that (1) the independent audits are conducted in accordance with ACS requirements, (2) reimbursements of contractors' indirect expenses are made in accordance with an approved cost allocation plan, (3) the advances paid to contractors do not exceed their needs, and (4) children's attendance at day care centers is accurately reported by contractors. As a result of these deficiencies, ACS has less assurance that its payments to the contractors are supported by the contractors' records and are otherwise in accordance with the requirements of the contracts.

---

## **Monitoring**

Monitoring is the review of an organization's activities and transactions to assess the quality of its performance over time and to determine whether its controls are effective. Management should focus its monitoring efforts on internal controls and the achievement of the organization's objectives. We attempted to determine whether ACS management adequately monitored its process for paying day care contractors. However, as was previously discussed, we were not allowed by ACS management to review many of the records relating to this process, and were not allowed sufficient access to the staff involved in the process. As a result, we were unable to fully evaluate the adequacy of ACS's monitoring practices.

---

## **Recommendations**

1. Improve the communication of audit requirements to the day care contractors and their independent auditors.
2. Improve the way information is communicated to day care contractors in contract closeout statements.
3. Maintain information about the family fees owed to each day care contractor in a manner that permits its use as part of the contract closeout process.
4. Maintain records distinguishing direct program costs from administrative costs for day care programs, and monitor the administrative costs to ensure that they are not excessive.





---

---

# Contractor Payment Process

---

---

We examined selected aspects of ACS's process for paying day care contractors and found that improvements can be made in some of the internal controls established for this process. In particular, we identified deficiencies in the controls for ensuring that (1) independent audits of the contractors are conducted in accordance with ACS requirements, (2) reimbursements of contractors' indirect expenses are made in accordance with an approved cost allocation plan, (3) the advances paid to contractors do not exceed their needs, and (4) children's attendance at day care centers is accurately reported by contractors.

---

## Independent Audits of Contractors' Revenues and Expenses

ACS has developed formal guidelines for the independent audits of the day care contractors' revenues and expenses. The purpose of these guidelines is to ensure that the audits are conducted in a manner that provides ACS with reasonable assurance that its payments to the contractors are supported by the contractors' records and are otherwise in accordance with the requirements of the contracts. ACS provides these guidelines to the contractors, and the contractors are responsible for sharing the guidelines with their auditors. We examined the three audit reports prepared for the three selected day care contractors for the contract year ended June 30, 1998 to determine whether these reports were prepared in accordance with ACS requirements.

On the basis of our discussions with ACS officials, we determined that the officials expect certain work to be performed by the independent auditors. If this work is not performed, the officials have less assurance that ACS's payments to the contractors are supported by the contractors' records and are otherwise in accordance with the requirements of the contracts. However, when we examined ACS's formal audit guidelines, we found that some of the officials' expectations were not included in the guidelines, and as a result, the expected work was not always performed by the independent auditors, as is shown in the following examples:

- ! ACS officials expect the auditors to take responsibility for the accuracy of various supplemental schedules that are to be included in the audit report submitted to ACS. These supplemental schedules include schedules of accounts payable, accounts receivable, fixed assets, consultants used, and allocated and unallocated costs. However, we found that this expectation is not stated in ACS's audit guidelines. When we reviewed the three audit reports, we found that, in all three reports, the auditors limited their responsibility to the information contained in the basic financial statements. Since the basic financial statements do not include much of the information

---

contained in the supplemental schedules, the audits were not conducted in accordance with ACS's expectations.

- ! ACS officials expect that the amount reported as payable to the contractor will be verified by the auditor. Since the amount to be paid to Contractor A was based on the number of days eligible children were in attendance in day care, Contractor A's reported attendance should have been verified by the auditor. However, this expectation is not stated in ACS's audit guidelines, and the attendance reported by Contractor A was not verified by its auditor. When we reviewed the contractor's attendance records, we determined that the attendance reported by the contractor was significantly overstated. As a result of this overstatement, the contractor was overpaid by \$13,566 for the year.
- ! ACS officials expect that the accuracy of the Supplemental Schedule of Fixed Assets/Equipment Inventory will be tested by the auditor. However, this expectation is not stated in ACS's audit guidelines, and we found no indication that the accuracy of Contractor B's inventory listing was tested by the auditor. When we traced selected items on the inventory listing to documentation supporting the purchase of the items, we were unable to find documentation indicating that Contractor B had, in fact, purchased an executive desk and chairs that, according to the inventory listing, cost a total of \$1,370. As a result, Contractor B was reimbursed for a purchase that was never made.

We also found that two of the three audit reports did not always comply with the expectations stated in the guidelines. For example, the guidelines explicitly state that certain supplemental schedules should be included with the audit report. However, some of the required schedules were missing from two of the three reports we examined (only the report prepared for Contractor C included all the schedules), and even when the schedules were prepared, they were not always prepared in a consistent manner. In addition, according to the audit guidelines, uncollectible family fees can be written off as a reimbursable expense only if prior approval has been obtained from ACD. However, we found that, on the recommendation of its auditor, Contractor B wrote off as an administrative expense \$6,791 of family fees receivable, without obtaining ACD approval. This resulted in an overpayment to Contractor B.

We determined that the audits did not fully comply with ACS's audit guidelines mainly because the guidelines were not effectively communicated to the contractors and their auditors. For example, it was not clearly communicated that audit guidelines issued by ACS after its separation from HRA are intended to supplement, rather than replace, the audit guidelines

---

issued before the separation. Only one of the three audit reports that we reviewed (the audit of Contractor C) cited the HRA audit guidelines when describing the audit scope, and a representative of the auditor for Contractor B told us that they were not familiar with some of the specific HRA audit guidelines.

ACS officials agree that their audit requirements could have been made clearer, and told us that corrective action has been taken.

We note that, when audit reports are submitted without the required supplemental schedules, ACS should require that the reports be amended to include the required schedules. However, the two reports we reviewed with missing schedules were accepted as complete by ACS. Similarly, if audit reports are submitted without indications that all applicable audit guidelines have been followed and all required audit work has been performed, ACS should take action to ensure that the appropriate audit work has been done.

We also note that the cost of the audit work required to complete some of the supplemental schedules may exceed the benefit of the information resulting from the work. For example, the audit guidelines require that the Supplemental Schedule of Fixed Assets/Equipment Inventory include a perpetual inventory listing with the original cost and date of purchase for each item. For Contractor C, this listing was 50 pages in the audit report and included items costing less than \$50. ACS relies on these schedules to track and manage fixed assets and equipment purchased with State, Federal, and City day care funds. We recommend that ACS consider less costly alternative means of obtaining reasonable assurance that payments for equipment purchases are supported by the contractors' records.

---

### **Recommendations**

5. Ensure that expectations for the independent audits of day care contractors are clearly stated in the formal audit guidelines.
6. Review the audit reports of day care contractors to ensure that the audits were conducted in accordance with the audit guidelines. If the reports are not complete or include indications that required work was not performed, do not accept the reports until they are completed or assurance has been obtained that all required work was performed.
7. Recover \$13,566 from Contractor A, and \$8,161 from Contractor B (\$1,370 in reported office equipment that was never purchased and \$6,791 for family fees that were incorrectly written off).
8. Determine whether less costly alternative means can be used to satisfy the objectives of the supplemental schedules required in the audit reports of day care contractors.

---

### **Reimbursement of Indirect Expenses**

For the year ended June 30, 1998, ACS had two day care contracts with Contractor B. When we reviewed the financial records maintained by Contractor B for the year ended June 30, 1998, we found that Contractor B charged ACS a total of \$103,775 in bookkeeping expenses under the two contracts. Contrary to the terms of the contracts, these charges were not based on evidence of direct payments for bookkeeping services; rather, the charges were allocated to the two contracts through accounting journal entries. According to the terms of the contracts, such indirect expenses could be reimbursed only if a cost allocation plan for the expenses had been approved by ACS and the expenses were allocated to the contracts in accordance with the plan. However, we found that a cost allocation plan for the bookkeeping expenses had not been approved for the two contracts. In the absence of such a plan, ACS has no assurance that costs are allocated appropriately and the amount paid is commensurate with the services received.

---

### **Recommendation**

9. Do not authorize the reimbursement of a day care contractor's indirect expenses unless an appropriate cost allocation plan has been approved for the contract and the expenses are allocated in accordance with the plan.

---

## **Payment of Advances**

Day care contractors are required to submit monthly reports to ACS indicating their actual expenses to date under the contract and estimating their expenses for the coming month. An objective of this control is to prevent the payment of excess funds to the contractors. However, when we examined the three selected contractors' records of funds advanced by ACS during our audit period, we found that excess funds were advanced to Contractor A.

For the first four months of the contract year ended June 30, 1998, Contractor A was advanced a total of \$39,224. However, the amount reportedly owed to the contractor for the entire contract year totaled only \$22,762, because fewer children than expected were enrolled in the contractor's day care center during the year. The contractor's monthly reports should have indicated that its advances were excessive, and ACS should have recovered the excess advances early in the contract year. However, ACS did not recover any of the excess advances until February 1999, which was more than halfway through the following contract year. The contractor was also advanced excess amounts during that year, as between July 1998 (the beginning of the contract year) and February 1999, the contractor was advanced an additional \$32,511, even though, according to our estimates, the contractor spent less than \$6,800 on the contracted day care services provided between July 1, 1998 and March 31, 1999.

In February 1999, ACS asked Contractor A to refund \$17,505 under the 1997-98 contract, and Contractor A complied with the request. However, ACS did not request the contractor to refund any of the excess advances made under the 1998-99 contract, and as of March 31, 1999, Contractor A had a total of at least \$20,000 in excess advances (i.e., funds in excess of what was needed to pay the expected expenses under the contract in the following month).

---

### **Recommendations**

10. Do not advance day care contractors more than is needed to cover their expected expenses during the following month, and recover any excess advances on a timely basis.
11. Recover the excess advances from Contractor A.

---

---

# Major Contributors to This Report

---

---

William Challice  
Richard Sturm  
Aaron Fruchter  
Barry Mordowitz  
John Lang  
Carol LeMieux  
James Pugliese  
Altagracia Rodriquez  
Marticia Madory





ADMINISTRATION FOR CHILDREN'S SERVICES  
150 WILLIAM STREET - 18<sup>TH</sup> FLOOR  
NEW YORK, N.Y. 10038

NICHOLAS SCOPPETTA  
*Commissioner*

March 31, 2000

William P. Challice, Audit Director  
Office of the State Comptroller  
Division of Management Audit & State Financial Services  
270 Broadway, 19<sup>th</sup> Floor  
New York, NY 10007

**Re: The State of New York Office of the Comptroller Audit of the New York City  
Administration for Children's Services Payments to Day Care Providers  
Report 98-N-11**

Dear Mr. Challice:

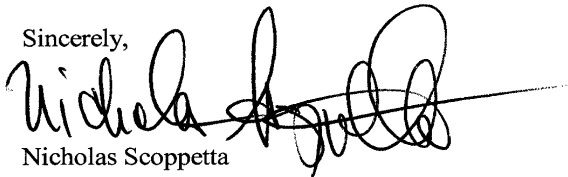
Thank you for sharing with us the Draft Report for the above captioned audit. ACS was pleased to review your recommendations and will work to implement them. We appreciate the recommendations made in the audit and feel that their implementation will help improve ACS' day care payment operations. These recommendations will also be useful to ACS in efforts to improve monitoring practices and procedures for child care programs under its auspices.

Attached is our response to your recommendations together with Audit Implementation Plans that address the audit's recommendations. We hope this demonstrates ACS' commitment to improving internal controls and policies and procedures related to the day care contractor payment process

ACS looks forward to continually working with the Office of the Comptroller in order to improve the delivery of services to the children of the City of New York.

If you have any questions, please do not hesitate to call.

Sincerely,



Nicholas Scoppetta

Attachments

---

State of New York  
Office of the State Comptroller  
New York City Administration for  
Children's Services Payments to  
Day Care Providers – Report 98-N-11

**Administration for Children's Services  
Response to Recommendations  
March 31, 2000**

**RECOMMENDATIONS**

**Internal Controls #'s 1, 2, 3 and 4**

A workgroup will be established to review and revise existing audit guidelines and protocols. ACS' revised audit guidelines will be sent directly to the contracted auditors. These guidelines will include clearer instructions for reporting the closeout reconciliation statement including the definition of terms used in the statement. The closeout reconciliation statement will be reviewed in an effort to make it more comprehensible. Program budgets are net of parent fees. ACS receives information concerning parent fees collected during the annual audit and closeout. Sponsors will be required to submit cost allocation plans for each site and/or funding stream.

**Independent Audits of Contractor's Revenues and Expenses #'s 5, 6, 7, 8, and 11**

A workgroup will be established to review and revise existing audit guidelines and protocols. Requirements for audits and their format will be expanded and clarified for FY00, and programs will be monitored for compliance. As part of this review, the workgroup will review all required schedules and evaluate whether or not supplementary schedules are needed. Emphasis will be placed on completing the audit, in its entirety, within the guidelines. Audit reports that are not in compliance will not be accepted until the audit requirements are met. Sponsoring boards will be advised of this in the correspondence accompanying the guidelines.

All outstanding amounts from both BMCC and the Salvation Army have been recovered.

**Reimbursement of Indirect Expenses # 9**

A workgroup will be established to review and revise existing audit guidelines and protocols including the definition of indirect. Presently, indirect expenses as defined, are not allowable and therefore are not included in the ACS budget.

**Payment of Advances # 10**

The Disbursement Unit will monitor expenditures to ensure that reimbursements are not excessive and that future reimbursements are calculated to reduce any excessive reserves.

---

**RECOMMENDATIONS**  
**NEW YORK STATE COMPTROLLER'S AUDIT**  
**PAYMENTS TO DAY CARE PROVIDERS**  
**98-N-11**

1. Improve the communication of audit requirements to the day care contractors and their independent auditors.
2. Improve the way information is communicated to day care contractors in contract closeout statements.
3. Maintain information about the family fees owed to each day care contractor in a manner that permits its use as part of the contract closeout process.
4. Maintain records distinguishing direct program costs from administrative costs for day care programs and monitor the administrative costs to ensure that they are not excessive.
5. Ensure that expectations for the independent audits of day care contractors are clearly stated in the formal audit guidelines.
6. Review the audit reports of day care contractors to ensure that the audits were conducted in accordance with the guidelines. If the reports are not complete or include indications that required work was not performed, do not accept the reports until they are completed or assurance has been obtained that all required work was performed.
7. Recover \$13,566 from contractor A and \$8,161 from contractor B in reported office equipment that was never purchased and \$6,791 for family fees that were incorrectly written off.
8. Determine whether less costly alternative means can be used to satisfy the objectives of the supplemental schedules required in the audit reports of day care contractors.
9. Do not authorize the reimbursement of a day care contractor's indirect expenses unless an appropriate cost allocation plan has been approved for the contract and the expenses are allocated in accordance with the plan.
10. Do not advance day care contractors more than is needed to cover their expected expenses during the following month and recover any excessive advances on a timely basis.
11. Recover the excessive advances from contractor A.

**ADMINISTRATION FOR CHILDREN'S SERVICES  
AUDIT IMPLEMENTATION PLAN  
NEW YORK STATE COMPTROLLER'S AUDIT  
PAYMENTS TO DAY CARE PROVIDERS  
98-N-11**

RECOMMENDATION 1: Improve the communication of audit requirements to the day care contractors and their independent auditors.

RESPONSIBLE MANAGER'S NAME: Workgroup Chair

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
Establish a workgroup to review and revise existing audit guidelines and protocols to improve the communication of audit requirements to day care providers and independent auditors.  Disseminate revised audit guidelines and protocols.  Provide training and support as needed to contract agencies.	Workgroup Chair (TBD)	04/14/00	05/15/00	FY00 Audit Guidelines	
		06/15/00	07/15/00		
	ACD Training and Technical Assistance	06/15/00	On-going		

**ADMINISTRATION FOR CHILDREN'S SERVICES  
 AUDIT IMPLEMENTATION PLAN  
 NEW YORK STATE COMPTROLLER'S AUDIT  
 PAYMENTS TO DAY CARE PROVIDERS  
 98-N-11**

RECOMMENDATION 2: Improve the way information is communicated to day care contractors in contract closeout statements.

RESPONSIBLE MANAGER'S NAME: Workgroup Chair

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
Establish a workgroup to review and revise existing audit guidelines and protocols to include instructions on the preliminary and final closeout process.	Workgroup Chair (TBD)	04/14/00	05/15/00	Revised closeout guidelines and statement in audit manual.	

**ADMINISTRATION FOR CHILDREN'S SERVICES  
 AUDIT IMPLEMENTATION PLAN  
 NEW YORK STATE COMPTROLLER'S AUDIT  
 PAYMENTS TO DAY CARE PROVIDERS  
 98-N-11**

RECOMMENDATION 3: Maintain information about the family fees owed to each day care contractor in a manner that permits its use as part of the contract closeout process.

RESPONSIBLE MANAGER'S NAME:

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS/ACD maintains and utilizes information about family fees in its contract closeout process. ACS/ACD's payments to contractors are net of total family fees due to the contractor. ACS will review its current procedure to ensure that the gap between required and realized fees does not have a negative impact on the program's ability to comply with contractual obligations.	ACS Closeout	04/14/00	On-going	ACD1, 3001, FPR Report, CAP, and Closeout Statement	

**ADMINISTRATION FOR CHILDREN'S SERVICES  
 AUDIT IMPLEMENTATION PLAN  
 NEW YORK STATE COMPTROLLER'S AUDIT  
 PAYMENTS TO DAY CARE PROVIDERS  
 98-N-11**

RECOMMENDATION 4: Maintain records distinguishing direct program costs from administrative costs for day care programs and monitor the administrative costs to ensure that they are not excessive.

RESPONSIBLE MANAGER'S NAME: Workgroup Chair

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
Establish a workgroup to review and revise existing audit guidelines and protocols to define direct, indirect, administrative overhead and parent organization charges and decide when and if cost allocations are needed by which agencies.  Sponsors that have multiple sites and/or funding streams will be required to submit cost allocation plans for administrative expenses for each site and/or funding stream.	Workgroup Chair (TBD)	04/14/00	05/15/00	FY00 Audit Guidelines	
		06/01/00	06/30/00		

**ADMINISTRATION FOR CHILDREN'S SERVICES  
 AUDIT IMPLEMENTATION PLAN  
 NEW YORK STATE COMPTROLLER'S AUDIT  
 PAYMENTS TO DAY CARE PROVIDERS  
 98-N-11**

RECOMMENDATION 5: Ensure that expectations for the independent audits of day care contractors are clearly stated in the formal audit guidelines.

RESPONSIBLE MANAGER'S NAME: Workgroup Chair

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
Establish a workgroup to review and revise existing audit guidelines and protocols to ensure that expectations are clearly stated in the formal audit guidelines.  Format and audit requirements will be expanded and clarified for the FY00 audit. Programs will be monitored for compliance.	Workgroup Chair (TBD)	04/14/00	05/15/00	FY00 Audit Guidelines	
	ACD Fiscal ACD Audit	07/01/00	On-going	Updated Audit Guidelines	



**ADMINISTRATION FOR CHILDREN'S SERVICES  
 AUDIT IMPLEMENTATION PLAN  
 NEW YORK STATE COMPTROLLER'S AUDIT  
 PAYMENTS TO DAY CARE PROVIDERS  
 98-N-11**

RECOMMENDATION 6: Review the audit reports of day care contractors to ensure that the audits were conducted in accordance with the guidelines. If the reports are not complete or include indications that required work was not performed, do not accept the reports until they are completed or assurance has been obtained that all required work was performed.

RESPONSIBLE MANAGER'S NAME:

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
Establish a workgroup to review and revise existing audit guidelines and protocols. The workgroup will formulate a written, formal process between ACD audit and ACS' centralized audit team.	Workgroup Chair (TBD)	04/14/00	05/15/00	FY00 Audit Guidelines	
The Interim Audit Guidelines will be expanded with an emphasis on completing the audit in its entirety in accordance with the audit guidelines.	ACD Fiscal ACD Audit	07/01/00	On-going	Updated Audit Guidelines	
Audit reports not in compliance will not be accepted until all audit requirements are met. Sponsoring boards will be notified in the correspondence accompanying the guidelines.	ACD Fiscal ACD Audit	09/01/00	On-going	Correspondence to sponsoring boards	

**ADMINISTRATION FOR CHILDREN'S SERVICES  
 AUDIT IMPLEMENTATION PLAN  
 NEW YORK STATE COMPTROLLER'S AUDIT  
 PAYMENTS TO DAY CARE PROVIDERS  
 98-N-11**

RECOMMENDATION 7: Recover \$13,566 from contractor A and \$8,161 from contractor B in reported office equipment that was never purchased and \$6,791 for family fees that were incorrectly written off.

RESPONSIBLE MANAGER'S NAME:

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
All outstanding amounts have been recovered from both BMCC and the Salvation Army.				Documentation has previously been provided to the NYS Comptroller's Office.	

**ADMINISTRATION FOR CHILDREN'S SERVICES  
 AUDIT IMPLEMENTATION PLAN  
 NEW YORK STATE COMPTROLLER'S AUDIT  
 PAYMENTS TO DAY CARE PROVIDERS  
 98-N-11**

RECOMMENDATION 8: Determine whether less costly alternative means can be used to satisfy the objectives of the supplemental schedules required in the audit reports of day care contractors.

RESPONSIBLE MANAGER'S NAME: Workgroup Chair

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
Establish a workgroup to review and revise existing audit guidelines to determine less costly alternatives to satisfy audit objectives.  Interim Audit Guidelines for FY00 will include all required and necessary schedules as part of the audit.	Workgroup Chair (TBD)	04/14/00	05/15/00	FY00 Audit Guidelines	
	ACD Fiscal ACD Audit	04/14/00	05/15/00	Audit Guidelines	

**ADMINISTRATION FOR CHILDREN'S SERVICES  
 AUDIT IMPLEMENTATION PLAN  
 NEW YORK STATE COMPTROLLER'S AUDIT  
 PAYMENTS TO DAY CARE PROVIDERS  
 98-N-11**

RECOMMENDATION 9: Do not authorize the reimbursement of a day care contractor's indirect expenses unless an appropriate cost allocation plan has been approved for the contract and the expenses are allocated in accordance with the plan.

RESPONSIBLE MANAGER'S NAME:

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
Establish a workgroup to review and revise existing audit guidelines and protocols to define indirect costs, administrative overhead, parent organization charges and what is allowable as well as whether or not a cost allocation plan is needed. As presently defined, indirect expenses are not allowable expenses.	Workgroup Chair (TBD)	04/14/00	05/15/00	FY00 Audit Guidelines	

**ADMINISTRATION FOR CHILDREN'S SERVICES  
AUDIT IMPLEMENTATION PLAN  
NEW YORK STATE COMPTROLLER'S AUDIT  
PAYMENTS TO DAY CARE PROVIDERS  
98-N-11**

RECOMMENDATION 10: Do not advance day care contractors more than is needed to cover their expected expenses during the following month and recover any excessive advances on a timely basis.

RESPONSIBLE MANAGER'S NAME:

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES		DOCUMENTATION	COMMENTS
		START	END		
<p>All fully funded and Limited Purchase of Service (LPOS) providers receive a 2/12 advance of their budgeted amount in the beginning of the operating year.</p> <p>In the case of fully funded providers, the subsequent reimbursements are made monthly and are based on actual expenses charged against the initial 2/12 advance. LPOS providers are reimbursed based on the monthly claims and will be periodically reviewed and adjusted against the initial 2/12 advance.</p> <p>The disbursement unit will monitor expenditures to ensure that reimbursements are not excessive and that future reimbursements are calculated to reduce any excessive reserves.</p>	<p>ACS Day Care Payments</p>	<p>04/14/00</p>	<p>On-going</p>		
	<p>ACS Day Care Payments</p>	<p>04/14/00</p>	<p>On-going</p>		

**ADMINISTRATION FOR CHILDREN'S SERVICES**  
**AUDIT IMPLEMENTATION PLAN**  
**NEW YORK STATE COMPTROLLER'S AUDIT**  
**PAYMENTS TO DAY CARE PROVIDERS**  
**98-N-11**

RECOMMENDATION 11: Recover the excessive advances from contractor A.

RESPONSIBLE MANAGER'S NAME:

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE AREA	DATES START      END	DOCUMENTATION	COMMENTS
<p>All outstanding amounts have been recovered from both BMCC and the Salvation Army.</p>			<p>Documentation has previously been provided to the NYS Comptroller's Office.</p>	