

H. CARL McCALL  
STATE COMPTROLLER



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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

February 25, 2002

Mr. William C. Bell  
Commissioner  
NYC Administration for Children's Services  
80 Lafayette Street  
New York, NY 10003

Re: Report 2001-F-25

Dear Mr. Bell:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article II, Section 8 of the State Finance Law; and Article 3 of the General Municipal Law, we have reviewed the actions taken by officials of the New York City Administration for Children's Services (ACS)/Agency for Child Development (ACD) as of December 31, 2001, to implement the recommendations contained in our report: *Payments to Day Care Providers (Report 98-N-11)*. That report, which was issued May 1, 2000, examined the adequacy of the internal controls established by ACS over payments made to day care contractors, whether payments were supported by the contractors' records and were made in accordance with contract requirements.

**Background**

ACS was created by Executive Order on January 11, 1996 to improve the delivery of services to the children of New York. As of July 1, 1998, ACD, which administers the City's day care programs, was transferred from the Human Resources Administration to ACS. ACS completed the transition in late 2001. As of June 30, 2001, ACS's day care programs served an average of 61,500 children daily. To be eligible for these programs, children must reside in New York City and must 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, 2001, about 255 such contractors provided programs for ACS.

About half the cost of ACS's day care program 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 ending June 30, 2002, is about \$478 million.

### **Summary Conclusions**

Our prior audit found that improvements were needed in ACS's internal controls over its payments to day care contractors. We had identified a \$90,000 error in the payment process. Also, some of ACS's audit requirements were not included in its formal audit guidelines, and, as a result, the expected work was not always performed by the independent auditors. Improvements were also needed in the controls over advances paid to contractors, reimbursement of contractors' indirect expenses, and the process used to report attendance at contractor-run day care centers.

Our follow-up review found that ACS has strengthened controls over the payment process. Clear expectations are now included in the audit guidelines, and are conveyed to day care contractors and their independent auditors. ACS also has improved controls over advances paid to contractors and the review of reported attendance at day care centers.

### **Summary of Status of Prior Recommendations**

Of our eleven prior audit recommendations, ACS officials have implemented nine recommendations; the remaining two are no longer applicable.

### **Follow-up Observations**

#### **Recommendation 1**

*Improve the communication of audit requirements to the day care contractors and their independent auditors.*

Status – Implemented

Agency Action – ACS has issued formal audit guidelines for the two fiscal years ended June 30, 2000 and 2001. The guidelines contain specific instructions for both day care contractors and their independent auditors. For example, they require the review of the system of internal accounting controls over the collection of parent's fees. The guidelines also include a notification to both the day care providers and their auditors that audit reports are subject to review and approval by ACS.

#### **Recommendation 2**

*Improve the way information is communicated to day care contractors in contract closeout statements.*

Status – Implemented

Agency Action – ACS developed and implemented detailed “Closing Procedures for Fiscal Year 2000” and “Interim Closing Procedures for Fiscal Year 2001” for the closeout process. In addition, ACS held training sessions for the contracted administrative staff to explain the details of the closeout procedures.

### **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.*

Status – Implemented

Agency Action – ACS includes family fee information in the day care contractors’ budgets. The final settlement amount for each day care contractor, is now reported net of expected family fees as part of the contract closeout process.

### **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.*

Status – No Longer Applicable

Agency Action – According to officials at the New York State Office of Children and Family Services’ Bureau of Day Care, all costs, including administrative costs, associated with a day care program, run by a sponsoring organization, are now defined as direct costs. Therefore, no allocations of costs are necessary.

### **Recommendation 5**

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

Status – Implemented

Agency Action – ACS provided us with copies of the fiscal year 2000 and 2001 formal audit guidelines. The expectations for the independent audits of day care contractors are clearly stated. For example, the auditors previously limited their responsibility to the information contained in the basic financial statement. Starting in fiscal year 2000, it is the auditors’ responsibility to review and express an opinion on such supplemental schedules as accounts payable, accounts receivable, fixed assets, allocated and unallocated expenses, etc.

### **Recommendation 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.*

Status – Implemented

Agency Action – ACS reviewed the fiscal year 2000 independent auditors' reports of day care contractors, to determine whether the audits were conducted in accordance with the guidelines. The level of compliance was classified as either:

- Adequate;
- Minor administrative deficiencies cited;
- Major administrative deficiencies cited;
- Deficiencies resolved;
- Deficiencies partially resolved;
- Deficiencies not resolved; or
- Not applicable.

ACS accepted the reports only after all deficiencies were corrected.

### **Recommendation 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).*

Status – Implemented

Agency Action – ACS recovered the full amount from Contractor A. ACS and Contractor B agreed to reduce future claims by \$6,791 in family fees incorrectly written off. The \$1,370 in reported office equipment was for furniture that was ordered but not delivered in fiscal year 1998. ACS determined that the contractor had cancelled the original order and purchased the furniture from another vendor in fiscal year 1999. Adjusting entries to reflect the transaction were recorded.

### **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.*

Status – Implemented

Agency Action – ACS reviewed the supplemental schedules required in the audit reports of day care contractors, and determined that they are needed to satisfy agency concerns, such as

safeguarding assets. ACS believes that requiring supplemental schedules is the best way to account for its inventory.

### **Recommendation 9**

*Do not authorize the reimbursement of 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.*

Status – No Longer Applicable

Agency Action – As indicated in Recommendation 4, all costs, including administrative costs, associated with a day care program run by a sponsoring organization are now defined as direct costs. Therefore, no allocations of costs are needed.

### **Recommendation 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.*

Status – Implemented

Agency Action – ACS's initial advance to each day care contractor covers two-twelfths of the annual budget. Subsequent payments are then made by ACS to reimburse the contractor for actual expenses for the prior month, up to the budget limit. Preliminary closeout and final reconciliations based on the year-end independent auditor reports determine the final amount due to either ACS or the contractor.

### **Recommendation 11**

*Recover excess advances from Contractor A.*

Status – Implemented

Agency Action – ACS recovered \$11,153 of the fiscal year 1999 excess advance from Contractor A, which represented the final adjusted amount due to ACS for the fiscal year based on actual allowable expenses.

Major contributors to this report were Richard Sturm, Barry Mordowitz and Emma Wohlberg.

We thank the management and staff of the Administration for Children's Services/Agency for Child Development for the courtesies and cooperation extended to us during this review.

Very truly yours,

William P. Challice  
Audit Director