

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
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Audit on the Use of Administration for Children's Services Funds by the Whitney M. Young Jr. Day Care Center

MD02-187A

February 13, 2003

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City of New York
Office of the Comptroller
Bureau of Management Audit

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AUDIT REPORT IN BRIEF

The Comptroller's Office performed an audit on the use of Administration for Children's Services (ACS) funds by the Whitney M. Young Jr. Day Care Center. The Center, now closed, was a not-for-profit organization sponsored by the Staten Island Children's Council (SICC), which was responsible for the management and control of the Center and other programs. During the course of our audit, we found some potentially fraudulent transactions and misappropriations of both Center and SICC funds.

Audit Findings and Conclusions

There were significant irregularities in SICC's financial practices. SICC failed to disclose the existence of eight bank accounts and commingled Center funds with other program funds, a practice prohibited by the Center's contract with ACS. Such practices can conceal deposits and withdrawals and can destroy audit trails. We found potentially fraudulent transactions and misappropriation of funds totaling \$727,992, specifically:

- Questionable expenses, totaling \$367,562, were made from various SICC bank accounts.
- SICC funds, totaling \$69,525, were used to make mortgage payments for a personal residence. The Children's Holding Corporation applied for the mortgage, and the Center's Executive Director signed as the Corporate Officer for the mortgage.
- The address for a former operator of one of the Center's family day care homes was the same as one of the home addresses listed in various computer databases for the Center's Executive Director. We question the payments made, totaling \$31,914, to the operator.

- Questionable ATM purchases and withdrawals, totaling \$10,156, were made from an SICC bank account.
- Bank penalties for bounced checks, totaling \$8,140, were paid from the SICC bank account for the Center.
- Unexplained “Income Tax Debits,” totaling \$129,269, were paid from the SICC bank account for the Center.
- Checks used to make payments, totaling \$36,941, from various SICC bank accounts had check numbers that duplicated those on checks already issued that totaled \$46,877.
- Checks, totaling \$27, 608, were paid from and then deposited in the same account.

By ignoring many of the terms of its contract with ACS and by circumventing internal control mechanisms, SICC created an environment that was readily open to abuse.

Audit Recommendations

To address these issues, the report makes seven recommendations, the most significant of which are that ACS should take measures to ensure that:

- The matters identified in this report regarding the irregularities in SICC financial practices are investigated.
- It recoups from SICC the potentially misappropriated funds we identified, totaling \$727,992.
- An investigation is conducted to determine whether anyone other than Denise Pedro, the Center’s former Executive Director, was involved with the irregularities in SICC financial practices.
- It does not award any future contracts to SICC or other organizations that have any associations with SICC’s board members or its former Executive Director.

ACS Response

In their response, ACS officials agreed with the audit’s findings and recommendations. The response stated:

“ACS looks forward to working with your office to improve the delivery of services to the children of the City of New York.

“ACS no longer has a contractual relationship with this organization [SICC], therefore recoupment from payments to the program is not possible. Any action to recover these funds must be through legal action. ACS referred the matter to the appropriate agencies that handle legal matters and recommend recovery of funds as an avenue that should be pursued.”

INTRODUCTION

Background

The Whitney M. Young Jr. Day Care Center (the Center), now closed, was a not-for-profit organization sponsored by the Staten Island Children's Council (SICC). SICC was responsible for the management and control of the Center. It set policy, oversaw administration, monitored the finances, and hired the Center's Executive Director. SICC also oversees other programs.

During Fiscal Year 1998, the Center occupied premises at 25 West Street in Staten Island that was leased by the City from the Urban League of New York. However, the presence of a potentially harmful mold found in the property's basement on October 30, 1997, caused the Center to move to 120 Stuyvesant Place, also in Staten Island. The Center leased this space from the Stuyvesant Business Center.

The Center was under contract with the Administration for Children's Services (ACS) to provide child care services Monday through Friday from 8:00 a.m. to 6:00 p.m. The Center served approximately 90 pre-school children (two and one-half to six years of age) and 40 school-age children (six to 12 years of age). The contract with ACS also allowed the Center to provide child care services at 12 family day care homes. Tuition for children attending the Center or one of its family day care homes was either fully paid or partially paid by ACS. The parents of those students whose tuition was partially paid by ACS paid the balance of the tuition as "parent fees."

During Fiscal Year 1999, the Center received City funds totaling \$900,591—\$837,345 from ACS and \$63,246 from the Department of Youth Services. In addition, the Center received \$107,587 for its food expenses from the Child and Adult Care Food Program (CACFP) of the New York State Department of Health.

On April 5, 2000, the Center's Executive Director, Denise Pedro (also the Executive Director for SICC) was arraigned in State Supreme Court for allegedly stealing \$13,000 in SICC funds between October 1995 and April 1997. She was accused of using the funds to pay for personal expenses, such as shoes, vacations, and liquor. She was also charged with stealing funds totaling \$7,000 from her estranged husband's business to pay off her credit card bills. She entered a not guilty plea before a State judge and was released on her own recognizance.

On September 30, 2000, CACFP terminated its contract with the Center because of SICC's "poor performance." On June 30, 2001, ACS also ended its contract with the Center for the same reason. As a result of the lack of funding, the Center closed.

The Executive Director's trial started on March 13, 2002, almost two years after her arraignment. On March 25, 2002, she was found guilty on single counts of "scheming to defraud" and "grand larceny," six counts of "criminal possession of a forged instrument," and five counts of "petit larceny." The Executive Director maintained that any funds used to pay off

her credit card bills were made from private donations to SICC, not government funds, and that these expenses were not personal in nature. On May 20, 2002, the Executive Director was sentenced to six months in jail and five years probation. She was also required to pay back the \$13,000 to ACS and perform 200 hours of community service.

Objectives

Initially, our audit objective was to determine whether the Center was in compliance with its contract with ACS. Our audit scope period was Fiscal Year 1999. However, during the course of our audit we found some potentially fraudulent transactions and misappropriations of both Center and SICC funds. Therefore, the audit's objective was modified to determine whether and to what extent embezzlement and misappropriations of Center and SICC funds had occurred.

Scope and Methodology

The scope of our initial audit objective was Fiscal Year 1999 (July 1, 1998, through June 30, 1999). However, since we modified the audit's objectives, we expanded our audit scope to include the period March 1, 1997, through December 31, 2000.

To obtain an understanding of the Center's financial practices and determine whether embezzlement and misappropriation of funds had occurred, we interviewed the Executive Director and the bookkeeper of the Center, and the Certified Public Accountant for SICC. We also interviewed officials from ACS and CACFP to obtain an understanding of their contract requirements with the Center. Finally, we interviewed some operators of the Center's family day care homes to determine whether they were satisfied with the services that the Center had provided to children and whether they had encountered any problems with the Center's management.

During the audit, we found two residences associated with the Executive Director. One of the Center's former family day care homes was located at 427 Britton Avenue, the same address as one of the many home addresses listed in various computer databases for the Executive Director. In addition, we found that the Executive Director applied for and obtained a mortgage for a property located at 84 Park Lane and used SICC funds to pay for this mortgage. Therefore, we conducted surveillance of both sites to verify their existence and determine their relationship to the Executive Director.

Regarding the receipt and accounting of public funds, the Center's bookkeeper and the audit liaison from ACS stated that funds received by the Center from the City were electronically transferred from ACS into the SICC Department of Youth Services Checking Account (DYS Account). These funds were then to be transferred into the SICC Whitney M. Young Day Care Center Checking Account (ACS Account) as needed. Therefore, we reviewed the bank

statements for the DYS Account and ACS Account for Fiscal Year 1999 to ensure that all City funds were transferred from the DYS Account to the ACS Account.

Based on our review of the bank statements, we found that all City funds were not transferred into the ACS Account from the DYS Account. Rather, the moneys were deposited into other accounts, some of which were never disclosed to us. In addition, our review of the Center's most up-to-date certified financial statements revealed the existence of additional bank accounts not disclosed to us. With the assistance of the Richmond County District Attorney's Office, we subpoenaed the records for the other bank accounts and expanded our testing to include a detailed review of them.

To assess whether the Other Than Personal Service (OTPS) expenses charged to the ACS Account were reasonable and necessary for the Center's daily operations, we reviewed all the original canceled checks and corresponding invoices for Fiscal Years 1998 and 1999. For checks not supported by invoices, we attempted to contact the payees to determine the nature of the expenses.

We also reviewed all Fiscal Year 1998, 1999, and 2000 canceled checks for the SICC Child and Adult Care Food Program Checking Account (CACFP Account) to determine whether the expenses were reasonable and food-related.

In addition, we reviewed the canceled checks for the accounts we subpoenaed for the period March 1, 1997, through December 31, 2000, to determine whether expenses paid from these accounts were reasonable and SICC- or Center-related. Since we did not have supporting documentation for these expenses, we were able to determine their legitimacy only on the basis of vendor names (payees) and by determining the types of goods or services the vendors provided.

We analyzed all the bank statements (subpoenaed and not subpoenaed) to determine the sources of all deposits made and the types of withdrawals from the accounts. We also determined whether SICC was commingling Center funds with other program funds.

To ensure that the Center complied with the provisions of its contract with ACS regarding having an up-to-date independent audit report, we requested copies of current audited reports.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

ACS Response

Due to the nature of its findings, this report was initially issued confidentially to the Richmond County District Attorney's Office to determine whether criminal prosecution was

appropriate. A preliminary draft report was sent to officials from ACS on November 26, 2002, and was discussed at an exit conference on December 23, 2002. We submitted a draft report to officials from ACS on January 8, 2003, with a request for comments. We received a written response from ACS on January 29, 2003. ACS officials agreed with the audit's findings and recommendations. The response stated:

“ACS looks forward to working with your office to improve the delivery of services to the children of the City of New York

“ACS no longer has a contractual relationship with this organization [SICC], therefore recoupment from payments to the program is not possible. Any action to recover these funds must be through legal action. ACS referred the matter to the appropriate agencies that handle legal matters and recommend recovery of funds as an avenue that should be pursued.”

The full text of the ACS response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

There were significant irregularities in SICC's financial practices. SICC failed to disclose the existence of eight bank accounts and commingled Center funds with other program funds. Such practices can allow the concealing of deposits and withdrawals and can destroy audit trails. Table I below summarizes the potentially fraudulent transactions and misappropriation of funds that total \$727,992. These and other findings will be discussed in greater detail in the following sections of the report.

TABLE I

Summary of Potentially Fraudulent Transactions and Misappropriation of Funds

| Category | Dollar Amount |
|--|------------------|
| Questionable expenses from SICC's general bank accounts | \$290,939 |
| SICC funds used to make mortgage payments for personal residence | \$69,525 |
| Payments made to questionable family home provider | \$31,914 |
| Questionable ATM purchases and withdrawals made from the CACFP Account | \$10,156 |
| Questionable expenses from SICC's ACS Account | \$76,623 |
| Bank fees paid from ACS Account for insufficient funds | \$8,140 |
| Unexplained "Income Tax Debits" from ACS Account | \$129,269 |
| Checks issued with duplicate check numbers | \$83,818 |
| Checks paid from and deposited into the same account | \$27,608 |
| Total | \$727,992 |

The significant irregularities in SICC's financial records were further evidenced by what SICC's former Certified Public Accountant (CPA) said when we asked him why the Fiscal Year 1999 financial statements had not been prepared. The CPA stated that he had resigned from auditing the financial position of SICC soon after the completion of the Fiscal Year 1998 financial statements because "there were too many problems" and that during every year he prepared the financial statements, he had trouble obtaining documentation from SICC. He also added that as of May 15, 2000, he had still not been paid for preparing the Fiscal Year 1998 financial statements.

We also spoke to some former operators of the Center's family day care homes who stated that they were not happy with the Center's management, especially the Executive Director, whom some called a "devil" and some called a "snake." Former operators stated that the Executive Director would often pay them late, would "usually" pay them with checks that "bounced" because of insufficient funds, and would sometimes give them checks and tell them to "wait a few weeks to cash them." Some former operators even explained that their own banks would not cash their checks because the checks often "bounced." All of the former operators we

spoke to stated that as of April 10, 2002, they were still owed money for services that they had provided. One operator stated that she still had not been paid for a full year’s worth of food-related services that she had provided to the children in her family day care home.

We believe that the results of our audit add further credibility to the charges filed against the Executive Director regarding fraud and mismanagement of funds. By ignoring many of the terms of its contract with ACS and the New York State Department of Health and by circumventing internal control mechanisms, SICC created an environment that was not only open to abuse, but likely to have abuse.

SICC Failed to Disclose the Existence of Eight Bank Accounts

Center officials did not disclose to us eight SICC bank accounts in which City funds may have been deposited. The Center’s bookkeeper and the audit liaison from ACS stated that City funds were first deposited into the DYS Account and then were transferred into the ACS Account as needed. However, we found City moneys were not all transferred into the ACS Account from the DYS Account. Rather, some of the moneys were deposited from the DYS Account into two other bank accounts, one of which was never disclosed to us. In addition, our review of one of SICC’s certified financial statements revealed the existence of four additional bank accounts not disclosed to us.

We then requested copies of the bank statements and canceled checks for the five undisclosed bank accounts. SICC refused to provide us the records claiming that these accounts “did not contain City funds and are none of your business.” With the assistance of the Richmond County District Attorney’s Office, we subpoenaed these records from J. P. Morgan Chase and Richmond County Savings Banks. Table II, below, details the balances at the end of Fiscal Year 1999 (i.e., as of June 30, 1999) of the five subpoenaed accounts (General Bank Accounts).

TABLE II

**Summary of Balances as of June 30, 1999,
Of the Five Subpoenaed Accounts**

| Bank Account Name | Amount of 6/30/99 Balance |
|--------------------------------|----------------------------------|
| General Administration Account | \$15,554 |
| Voucher Program Account | \$877 |
| Money Market Account | \$315 |
| Old General Checking Account | \$0 |
| Commercial Checking Account | \$74 |
| Total | \$16,820 |

After we reviewed the records from the subpoenaed accounts identified in Table II, we identified three additional accounts not disclosed to us: Whitney M. Young Teachers Association

Account, Children's Holding Corporation Account, and another money market account. We had no documentation related to these accounts and therefore did not include an analysis of these accounts in this audit. We recommend that ACS further investigate these three accounts.

By not revealing all of its bank accounts, an organization (such as SICC) can conceal deposits and withdrawals, leaving funds susceptible to theft. Subsequent sections of this report will illustrate improprieties in the use of the undisclosed bank accounts.

SICC Commingled Center Funds with Other Program Funds

SICC commingled Fiscal Year 1999 Center funds totaling \$837,345 with its other program funds. This practice was prohibited by the Center's contract with ACS.

Article 5, *Fiscal Procedures*, of the ACS contract, states "The Provider [SICC] shall establish and maintain a bank account . . . to be used only for funds received under this agreement. Funds shall not be commingled with funds received from any other source."

ACS funds were electronically transferred into the DYS Account. According to the Center's bookkeeper and the audit liaison from ACS, these funds were to be transferred into the ACS Account as needed for Center expenses. However, ACS funds were not all transferred into the ACS Account. Rather, they were transferred into many accounts, making it difficult to trace the ACS funds.

During Fiscal Year 1999, \$902,591 was deposited into the DYS Account from various sources, as follows: \$837,345 from ACS, \$63,246 from the Department of Youth Services, and \$2,000 transferred from the SICC General Administration Account. In addition, the DYS Account had a \$2,635 Fiscal Year 1998 ending balance. Since ACS funds were commingled with other funds in the DYS Account, we needed to trace all of the funds in the DYS Account.

A total of \$904,507 was withdrawn from the DYS Account during Fiscal Year 1999, as follows: \$563,000 was transferred into the ACS Account, \$312,079 was transferred into the SICC General Administration Account, \$29,000 was transferred into the CACFP Account, and \$428 was withdrawn to pay for banking fees. A total of \$719 in funds remained in the DYS Account as of June 30, 1999. Thus, only \$563,000 (67%) of the funds given to the Center by ACS was directly transferred into the ACS Account.

During the fiscal year, an additional \$130,800 was transferred into the ACS Account from other accounts, as follows: \$32,000 from the SICC General Administration Account, \$24,200 from the CACFP Account, \$47,000 from the Money Market Account, \$2,000 from the Voucher Program Account, and \$25,600 from the Commercial Checking Account. Transfers into the ACS Account for the fiscal year totaled \$693,800—only 83 percent of the \$837,345 in funding the Center received from ACS.

A total of \$62,089 was transferred from the ACS Account into other SICC accounts, as follows: \$56,089 into the General Administration Account and \$6,000 into the CACFP Account. Again, this should not have occurred given that the contract between the Center and ACS specifically states that City funds are not to be commingled with funds received from any other source.

ACS requires day care centers to establish and maintain a bank account exclusively for ACS funds. This account provides a clear audit trail of day care expenses. Transferring ACS, or any other funds, in and out of many bank accounts creates an environment in which the misappropriation of funds can occur without being easily detected and can obscure the audit trail. In conclusion, we were unable to account for \$142,826 in ACS funds provided to the Center during Fiscal Year 1999.

SICC Had General Bank Account Irregularities

Questionable Expenditures

Our review of SICC's General Bank Accounts for the period March 1, 1997, through December 31, 2000, identified 243 checks totaling \$290,939 in questionable OTPS expenses. Since we subpoenaed the General Bank Accounts, we had the bank statements and cancelled checks for the expenditures in these accounts, but we had no supporting documentation. Therefore, we were able to determine whether expenses were legitimate based only on the vendor names (payees) and by determining the types of goods or services these vendors provided. Based upon this information, we determined whether the expenses were related to either the Center or SICC.

Table III, below, summarizes the questionable expenditures (by expense type) found during our review of the General Bank Accounts during the period March 1, 1997, through December 31, 2000.

TABLE III

Summary of Questionable Expenditures (by Expense Type)
From General Bank Accounts, March 1, 1997, through December 31, 2000

| Expense Category | Number of Checks | Dollar Amount |
|---|-------------------------|----------------------|
| Executive Director | 67 | \$71,639 |
| Banks (Loans) | 15 | \$29,288 |
| Miscellaneous | 41 | \$27,020 |
| Real Estate | 1 | \$28,911 |
| Lawyers | 9 | \$22,985 |
| Cash | 7 | \$20,640 |
| Insurance | 21 | \$17,200 |
| Credit Card | 14 | \$14,461 |
| Transfers to unknown SICC bank accounts | 3 | \$11,600 |
| Car-Related | 29 | \$10,508 |
| Maintenance-Related | 11 | \$9,867 |
| Construction-Related | 4 | \$9,000 |
| Travel | 5 | \$5,506 |
| YMCA | 5 | \$4,319 |
| Internal Revenue Service | 2 | \$3,382 |
| Department Stores | 4 | \$2,713 |
| AT&T Wireless | 2 | \$1,514 |
| Florists | 3 | \$388 |
| Total | 243 | \$290,939 |

Most of the questionable checks shown in Table III were issued with only the Executive Director's signature on the front of them. In many cases, the backs of these checks contained the Executive Director's signature as an endorsement as well. Requiring dual signatures on the front of all checks is a good internal control practice, especially if one of the two people authorized to sign the front of the checks is the payee.

The details of some of the questionable checks are as follows:

- Sixty-seven checks totaling \$71,639 were made out to the Executive Director, with \$60,153 of that amount paid during a 12-month period. We question the legitimacy of these checks not only because the Executive Director's signature was the only one that appeared on the front of the checks, but also because the Executive Director stated that we should not be concerned with how she was paid. She explained that she was paid from "other than City" funds.
- A check for \$28,911 dated May 28, 1999, was made out to Clinton Hill Properties. We contacted the property manager from Clinton Hill Properties many times and asked that he provide us supporting documentation for this payment. The property

manager was very hesitant to share any information with us and kept telling us that once he found the “contract,” he would fax it to us. However, he never provided us with any supporting documentation. According to its Web site on the Internet, Clinton Hill Properties provides real estate services for single and multi-family residences, cooperatives, and condominiums in the Clinton Hill section of Brooklyn.

- Seven checks totaling \$20,640 were made out to Cash. The Executive Director’s signature was the only one that appeared on the front and the back of the checks.
- Fourteen checks totaling \$14,461 were made out to Capital One (a credit card company). Since we had no invoices supporting these payments, we could not determine what these payments were for.
- Twenty-nine checks totaling \$10,508 were made out to various vendors, such as All Tire, AVIS car-rental, Custom Auto Detailing, Department of Motor Vehicles, E-Z Pass, Vehicle Funding Corporation of New Jersey, Firestone, and Landrover of Woodridge, a dealership, for car-related expenditures.
- Checks totaling \$9,000 were made out to various vendors, such as America’s Roofing, Fallucca Construction, and K.B. Contracting Co, for construction-related expenditures. We question payments made for construction-related expenditures, since the lease agreement between the owner of 420 Targee Street (the administrative office that SICC occupied) and SICC during our audit period stated that “the owner shall maintain and repair the public portions of the building, both exterior and interior.”
- A check for \$1,391 dated June 27, 1999, was made out to the Omni Cancun Hotel, in Mexico, and a check for \$1,525 dated June 6, 1999, was made out to American Airlines. We issued a subpoena to the Omni Cancun Hotel to determine what the \$1,391 payment was for. We found that the payment was for hotel charges that the Executive Director, Denise Pedro, had incurred during her stay at the hotel from June 20, 1999, through June 28, 1999. A subsequent section of the report discusses two ATM withdrawals from the CACFP Account made in Mexico on June 23, 1999, totaling \$646.
- A check for \$1,120 dated September 11, 1998, was made out to the Staten Island Hotel. We called the hotel to try to determine what the payment was for; however, the records were unavailable.
- A check for \$970 dated May 11, 1998, was made out to The Love Birds Van & Bus Transportation. We contacted this vendor to obtain supporting documentation; however, the records were unavailable.

- Checks totaling \$2,713 were made out to Macy's, Sears, J.C. Penny, and the Sports Connection department stores. Since we had no invoices supporting these payments, we could not determine what these payments were for.

Because of the absence of documentation, it was difficult to determine the legitimacy of the expenses. However, as noted above, in many cases these expenses are clearly not Center- or SICC-related. The 243 checks identified appear even more questionable since the only signature on the front of most of them was that of the Executive Director; and in many cases, the backs of these checks contained the Executive Director's signature as an endorsement as well.

Executive Director Applied for and Obtained a Mortgage On a Personal Residence Using SICC Funds

A mortgage application was filed on August 6, 1998, to obtain a \$650,000 commercial mortgage for two Staten Island properties—420 Targee Street (SICC's administrative office) and 84 Park Lane. The Children's Holding Corporation applied for the mortgage, and the Executive Director, Denise Pedro, signed as the Corporate Officer. We conducted surveillance of the property located at 84 Park Lane to verify its existence and determine its relationship to the Executive Director. Our observation revealed that 84 Park Lane is a residential property with an adjacent vacant lot. Furthermore, mail located on the floor outside the premises was addressed to Denise Pedro.

The mortgage was issued on March 1, 1999, by the Richmond County Savings Bank, with monthly payments set at \$7,345 to begin on May 1, 1999. Our review of the General Bank Accounts during the period November 1999 through December 2000 revealed eight payments totaling \$69,525 that were used to pay for this mortgage.

The Children's Holding Corporation was listed in the City's Fairtax System as the owners of the properties. We tried to obtain information regarding the principals of the Children's Holding Corporation through the Better Business Bureau, the City's Vendex System (database of vendors doing business with the City), and the New York State Division of Corporations. The only information available was that the corporation registered as a not-for-profit organization on September 15, 1994. The names of the Directors who initially filed the incorporation papers were Catherine Mudd, Warren Lyons, and Marion Arias. Although Denise Pedro signed the loan application as a Corporate Officer for the Children's Holding Corporation, she was not listed as one of the Directors when the Corporation was initially registered.

On March 4, 2002, bank officials informed us that the two properties were in the process of being foreclosed for non-payment of the mortgage. Officials explained that a Denise Pedro was supposed to make a mortgage payment sometime in March to prevent foreclosure. On April 10, 2002, bank officials informed us that one of the properties (420 Targee Street) had been sold.

**Executive Director's Home Address Is the Same
As for One of the Family Day Care Homes**

The address for a former operator of one of the Center's family day care homes is the same as one of the home addresses listed in various computer databases for the Executive Director. Child's Play Family Day Care was operated by a supposedly licensed operator, Kiwan Stewart, at 427 Britton Avenue in Staten Island. This address is one of the many home addresses associated with the Executive Director. Henry Pedro, the Executive Director's estranged husband, is listed as the owner of 427 Britton Avenue.

On June 8, 2000, we conducted surveillance of 427 Britton Avenue to determine whether it was used as a family day care home and whether Denise Pedro resided there. We observed that the house was vacant; however, a neighbor informed us that he had sold 427 Britton Avenue many years ago to Mr. and Mrs. Henry Pedro and that it was used as a family day care home at one time. During our observation, we noted mail addressed to Denise Pedro as well as Kiwan Stewart.

SICC paid Kiwan Stewart a total of \$31,914 during the period May 1998 through January 1999, supposedly for providing child care services at 427 Britton Avenue. CACFP officials told us that Kiwan Stewart was an operator of one of the Center's family day care homes for a very short time. Furthermore, many of the checks made payable to Kiwan Stewart had two endorsements on the back—Kiwan Stewart and Denise Pedro.

According to the *Fraud Examiners Manual* prepared by the National Association of Certified Fraud Examiners, a second endorsement may indicate that the payee was fictitious or that the check had been diverted to another party's use.

None of the former operators of the Center's family day care homes whom we interviewed had ever heard of Kiwan Stewart. Even one of the former operators who had been an operator for a long time stated that she knew "all of the operators of the Center's family day care homes but never heard of Kiwan Stewart." We also noted that Kiwan Stewart was listed in SICC's Fiscal Year 1998 financial statements as a "consultant."

**Questionable ATM Purchases and
Withdrawals by SICC**

A total of 68 ATM transactions totaling \$10,156 were made from the CACFP Account during Fiscal Years 1998 through 2000. Specifically, 42 purchases totaling \$4,694, and 26 withdrawals totaling \$5,462, were made through the use of an ATM debit card.

According to CACFP officials, a day care program can have an ATM debit card; however, they stated that it must be used with discretion since it can be subject to abuse, and it should be used only to purchase food for the Center program and used only in emergency situations.

Table IV, following, summarizes the ATM purchases and withdrawals made during Fiscal Years 1998 through 2000.

TABLE IV

Summary of ATM Purchases and Withdrawals
During Fiscal Years 1998 through 2000

| PURCHASES | | | | WITHDRAWALS | | |
|-------------------------|---------------|---------------------|----------------|---------------|---------------------|----------------|
| Vendor | Location | Number of Instances | Dollar Amount | Location | Number of Instances | Dollar Amount |
| Staten Island Furrier | Staten Island | 1 | \$292 | Brooklyn | 10 | \$1,945 |
| US Postal Service | Staten Island | 1 | \$40 | Manhattan | 1 | \$101 |
| G & E Amoco | New Jersey | 1 | \$20 | New Jersey | 1 | \$502 |
| Costco | Brooklyn | 3 | \$1,152 | Mexico | 2 | \$646 |
| Costco | Staten Island | 7 | \$1,176 | Staten Island | 12 | \$2,268 |
| Miggy's Supermarket | Staten Island | 3 | \$225 | | | |
| KeyFood | Brooklyn | 1 | \$27 | | | |
| Rite Aid | Brooklyn | 1 | \$25 | | | |
| Could not be determined | Brooklyn | 1 | \$11 | | | |
| Could not be determined | Brooklyn | 1 | \$30 | | | |
| Could not be determined | Brooklyn | 1 | \$35 | | | |
| Could not be determined | Staten Island | 15 | \$850 | | | |
| Could not be determined | Staten Island | 1 | \$128 | | | |
| Could not be determined | Staten Island | 2 | \$244 | | | |
| Could not be determined | Staten Island | 1 | \$200 | | | |
| Unknown | Staten Island | 1 | \$89 | | | |
| Unknown | Manhattan | 1 | \$150 | | | |
| Total | | 42 | \$4,694 | Total | 26 | \$5,462 |

The details of some of the ATM purchases and withdrawals are as follows:

- Purchases from the first three vendors (Staten Island Furrier, US Postal Service, and G&E Amoco) cited in Table IV were not food-related. For example, on December 20, 1999, a purchase totaling \$292 was made at the Staten Island Furrier. The manager of the Staten Island Furrier informed us that the Executive Director, Denise Pedro, had requested that additions of a cuff and belt be made to her coat on this date. The manager also explained that Denise Pedro had also put her coat in storage on another date.
- Purchases from the next four vendors (Costco in Brooklyn, Costco in Staten Island, Miggy's Supermarket in Staten Island, Keyfood in Brooklyn, and Rite Aid in Staten Island) may be food-related, based on the types of goods these vendors sell. However, three of these vendors are not in Staten Island where the Center is located. We question the legitimacy of these ATM purchases made in areas outside of Staten Island. Furthermore, we question four of the seven purchases made from Costco in Staten Island. These ATM purchases totaling \$820 were made around Christmas time—one on December 23, 1997, and three on December 24, 1997. Costco sells a variety of items, and we question whether a day care center needed to make four emergency purchases for food a few days before Christmas.
- Regarding the next seven purchases listed in Table IV as "Could not be determined," there was more than one vendor associated with the site of each of these ATM purchases. Therefore, we could not determine which vendor the purchase was made from. However, some of the vendors do not appear to be food- or Center-related. For example, some of the vendors associated with the site of the ATM purchase made in Staten Island totaling \$128 included Liquor Depot, Radio Shack, Dunkin Donuts, Forest Dental, Petrese Hair Design, and Majors Records & Video.
- Regarding the last two purchases listed in Table IV as "Unknown," we found no vendors associated with the site of the ATM purchases.
- Fourteen out of the 26 ATM withdrawals were not made from Staten Island. In fact, two withdrawals totaling \$626 were made in Mexico on June 23, 1999. These withdrawals occurred during the time the Executive Director, Denise Pedro, stayed in the Omni Cancun Hotel, in Mexico. We question the legitimacy of any ATM withdrawals made in areas outside of Staten Island, particularly those made out of the country.

Based on our analysis, we cannot be assured that any of the ATM transactions were legitimate, necessary, or food-related.

SICC Had ACS Account Irregularities

Questionable Expenditures

Our review of the ACS Account for Fiscal Years 1998 and 1999 identified 189 checks totaling \$76,623 in questionable OTPS expenditures. An expense was considered questionable if, based on its supporting documentation, it did not appear to be related to the Center or if there was no supporting documentation and based on the name of the payee, it did not appear to be related to the Center.

Table V, below, summarizes the questionable expenditures (by expense type) found during our review of the ACS Account during Fiscal Years 1998 through 1999.

TABLE V

Summary of Questionable Expenditures (by Expense Type)
From the ACS Account during Fiscal Years 1998 through 1999

| Expense Category | Number of Checks | Dollar Amount |
|-------------------------|-------------------------|----------------------|
| Miscellaneous | 128 | \$46,396 |
| Construction-Related | 25 | \$16,292 |
| Cleaning services | 7 | \$4,261 |
| Decorating | 4 | \$3,405 |
| Rent for storage | 13 | \$2,177 |
| Toys | 3 | \$1,662 |
| Executive Director | 2 | \$1,354 |
| Cash | 7 | \$1,075 |
| Total | 189 | \$76,623 |

Of the 189 checks for questionable expenses shown in Table V, 107 had supporting documentation and 82 did not. The details of some of the questionable checks that had supporting documentation are as follows:

- A check was made out to Lawrence Lapide on December 9, 1998, totaling \$173 for Christmas ornaments such as an artificial wreath, an animated Santa Claus, lights, and pointsettias. According to the *Administrative Advisory for Allocating Costs in a Publicly-Funded Child Care Program* prepared by ACS, funds allocated to day care centers by ACS should be only spent on personnel costs, facility costs, classroom and office supplies, classroom equipment, and services. Christmas ornaments should not have been purchased with ACS funds. Furthermore, audits of other day care centers conducted by the Comptroller's Office have revealed that it is a common practice for day care centers to use private funds generated from candy sales, plant sales (or other

fundraisers), and donations from either the parents or teachers to purchase Christmas ornaments.

- A check was made out to A. Visconti Inc., on December 5, 1998, totaling \$675. The voucher prepared by SICC indicated that the expense was for program supplies. The receipt that we were provided listed only the amount of each item purchased and did not list the description of the item. Therefore, we could not determine what the items purchased were. However, the receipt indicated that A. Visconti Inc., is “New York’s largest distributor of Douglas firs, Christmas trees, house plants, and watermelons.” Again, according to ACS officials and procedures, day care centers should be spending ACS funds on personnel costs, facility costs, and educational materials and supplies. Any other types of expenditures should be incurred with other than ACS funds.
- A check was made out to Arnica Home Improvement on January 31, 1999, totaling \$250 for a repair of a skylight. We question this expense since during this time the Center occupied premises on the ground floor of a building at 120 Stuyvesant Place.
- A check was made out to Staten Island Supply Co. on March 19, 1998, totaling \$875 for a toilet bowl. We question the reasonableness of this expense, given that the landlord is usually responsible for repairs to premises.
- A check was made out to Island Interiors on April 24, 1998, totaling \$2,450. The voucher prepared by SICC indicated that the expense was for window treatments. Although the invoice indicated that vertical blinds and slipcovers and pillows for a sofa were purchased, during the audit, we did not observe a sofa present at the Center. However, one of the former operators of the family day care homes informed us that the Executive Director, Denise Pedro, had a “beautiful office with a nice sofa on one of the floors located above the Center.” According to the ACS contract, ACS funds are to be used only for Center—not Administrative Office—expenses.
- Thirteen checks were made out to Public Storage totaling \$2,177 for the rental of storage space in Staten Island. We contacted this vendor on February 27, 2002, to inquire about the person who stored merchandise and the type of merchandise that was stored. The vendor stated that Denise Pedro rented space and pays \$175 a month; however, he did not know what she stored.
- Three checks were made out to Toys “R” Us on December 30, 1998, January 31, 1999, and February 27, 1999, totaling \$1,662. The purchases included three synthetic basketballs, one Jordan Mini Basketball Set, Spiderman Web blasters, two Boggle Jr. games, a hair and bead set, super trucks, World Wrestling Federation superstar action figures, three nesting pots and pans, talk-boy phones, a boom-box (radio), and wrapping paper. The purchase of wrapping paper suggests the purchases may have been for gifts, which may or may not have been for the students of the Center. Nevertheless, according to ACS officials, day care centers should be spending ACS

funds on educational materials and supplies and not on the types of items that were purchased.

- A check was made out to Denise Pedro on December 15, 1998, totaling \$1,000. The payment was supposedly for a reimbursement for a projector rental totaling \$826, for food ordered at a Spanish restaurant totaling \$125, and for food ordered at another, unknown, restaurant totaling \$43.

The details of some of the questionable checks that had no supporting documentation are as follows:

- A check was made out to the New York Mets totaling \$37. We did not find any invoice or receipt for this expense; however, the payment voucher indicated that a ticket was purchased.
- Five checks were made out to B & C Construction within the month of April 1998 totaling \$3,850. There was no documentation showing how these expenses were related to the operations of the Center. A “Christopher Spuell” endorsed the back of all the checks. We tried to contact B & C Construction. However, we could not find this vendor listed in any of the various yellow page directories for New York City, although a B & C Construction was listed with the New York State Division of Corporations, with an address in Rockland County.
- Four checks were made out to Wall to Wall Cleaning Services totaling \$1,958. We tried to contact this vendor to obtain the supporting documentation. The vendor was unable to provide us with any supporting documentation, but asked whether we were calling “to make payments for all of the outstanding bills owed by SICC.”
- Seven checks were made out to Cash, totaling \$1,075. The Executive Director’s signature was the only one that appeared on the front of five of the six checks.

Because of the absence of documentation, it was difficult to determine the reasonableness of these expenses. However, as shown above, it appears that these expenses were not Center-related.

Bank Fees for Insufficient Funds

From the period July 1, 1997, through December 31, 2000, a total of \$8,140 was withdrawn from the ACS Account to pay bank penalties for bounced checks. Table VI shows (by fiscal year) the number of instances that the Center was charged bank fees for insufficient funds and the associated dollar amounts.

TABLE VI

Bank Fees For Insufficient Funds Withdrawn
From the ACS Account, July 1, 1997, through December 31, 2000

| Period | Number of Instances | Dollar Amount |
|---|----------------------------|----------------------|
| July 1, 1997, through June 30, 1998 | 31 | \$1,020 |
| July 1, 1998, through June 30, 1999 | 34 | \$1,745 |
| July 1, 1999, through June 30, 2000 | 29 | \$2,250 |
| July 1, 2000, through December 31, 2000 | 35 | \$3,125 |
| Total | 129 | \$8,140 |

Not only do bank fees for insufficient funds drain an organization's financial resources, they also demonstrate a lack of control over the organization's funds that allows an environment to exist in which the misappropriation of funds can occur and be undetected. The practice of issuing "bouncing checks" seems to be common for SICC. When we spoke to former operators of the Center's family day care homes, we were told that "they often received checks that bounced."

Unexplained "Income Tax Debits"

From the period July 1, 1997 through December 31, 2000, there were 41 instances totaling \$129,269 in which funds were withdrawn from the ACS Account to pay for "Income Tax Debits." For example, on December 29, 1999, a \$20,048 deduction was made from the ACS Account for an "Income Tax Debit." Center officials were unable to provide us with any support for these deductions or to provide us with any explanation as to what these deductions were for.

We spoke with bank officials from J.P. Morgan Chase to inquire about the "Income Tax Debits" and to obtain the necessary support. However, bank officials said that no one from the bank "seems to know" what these deductions were for. We also asked bank officials from other banks about "Income Tax Debits." They explained that sometimes a court would order a bank to deduct funds from a person's bank account to pay the Internal Revenue Service and this would most likely occur when a person has failed to pay income taxes.

Table VII, following, shows (by fiscal year) the number of instances that "Income Tax Debits" were withdrawn from the ACS Account and the associated dollar amounts.

TABLE VII

**“Income Tax Debits” Withdrawn from the ACS Account
July 1, 1997, through December 31, 2000**

| Period | Number of Instances | Dollar Amount |
|---|----------------------------|----------------------|
| July 1, 1998, through June 30, 1999 | 5 | \$8,856 |
| July 1, 1999, through June 30, 2000 | 29 | \$100,857 |
| July 1, 2000, through December 31, 2000 | 7 | \$19,556 |
| Total | 41 | \$129,269 |

Other ACS Account Irregularities

Our review of the ACS Account bank statements for Fiscal Year 1999 found the following irregularities:

- Missing Cancelled Checks: 130 checks totaling \$138,271 were listed on the bank statements as being cashed, but were missing from SICC’s files. These checks were included in the records we subpoenaed.
- Checks Out of Sequence: 313 checks were not written in sequential order. For example, we found that check number 8155, dated July 8, 1998, should have been written before check number 8172. Instead, check number 8172 was dated July 7, 1998.

According to the *Guide to Fraud Investigations*, missing checks and checks out of sequence are either abuses of an organization’s internal control system or indications that there is no internal control system; they may also indicate that fraud has occurred or is occurring.

Duplicate Check Numbers

A total of 34 checks that were used to make payments from SICC’s bank accounts had check numbers that duplicated those on checks already issued —14 checks with duplicate check numbers were from the ACS Account and 20 checks with duplicate check numbers were from the General Administration Account.

For example, from the ACS Account:

- A check with the number 8494 was used to make a payment of \$968 to Ana Matais on December 8, 1998. On January 31, 1999, another check with the check number 8494 was used to make a payment of \$138 to Public Storage.

For example, from the General Administration Account:

- A check with the number 16050 was used to make a payment of \$2,006 to Denise Pedro on July 22, 1998. On November 2, 1998, another check with the check number 16050 was used to make a payment of \$916 to Con Edison.

Table VIII, below, summarizes the 14 checks and the 14 checks that duplicated their check numbers that were used to make payments from the ACS Account. These 28 checks totaled \$39,365 (\$14,913 + \$24,452). Table IX, following, summarizes the 20 checks and the 20 checks that duplicated their check numbers that were used to make payments from the General Administration Account. These 40 checks totaled \$44,453 (\$22,028 + \$22,425).

TABLE VIII

Checks with Duplicate Check Numbers
From the ACS Account

| Check Number | Date of Check | Payee | Dollar Amount | Date of Check with Duplicate Number | Payee | Dollar Amount |
|---------------------|----------------------|---------------------------------|----------------------|--|--|----------------------|
| 8486 | 12/15/98 | Denise Pedro | \$ 1,000 | 1/31/99 | Brand's Paycheck | \$153 |
| 8487 | 12/8/98 | Martha Villanueva | \$ 923 | 1/31/99 | M.C.S. Business Machines | \$898 |
| 8488 | 12/8/98 | Maritza Acevedo | \$ 685 | 1/31/99 | Staples | \$1,047 |
| 8489 | 12/8/98 | Alpha Watch Child Care Co. | \$1,086 | 1/31/99 | Safeguard Business Systems | \$37 |
| 8490 | 12/8/98 | Bertha Carillo | \$519 | 1/31/99 | Bell Atlantic | \$157 |
| 8491 | 12/8/98 | Cecilia Catlett | \$1,113 | 1/31/99 | Cultural Institutional Retirement System | \$560 |
| 8492 | 12/8/98 | Nicaise Cocks | \$399 | 1/31/99 | Sarah King | \$6 |
| 8493 | 12/8/98 | Sandra Ishmael | \$1,647 | 1/31/99 | Deer Park Spring Water | \$9 |
| 8494 | 12/8/98 | Ana Matais | \$968 | 1/31/99 | Public Storage | \$138 |
| 8495 | 12/8/98 | Luz Oliveras | \$1,448 | 1/31/99 | Toys "R" Us | \$653 |
| 8496 | 12/8/98 | Janet Oliveri | \$740 | 1/31/99 | Arnica Home Improvement | \$250 |
| 8497 | 12/8/98 | Nelly Ortiz | \$983 | 2/1/99 | Neil Albert | \$1,800 |
| 8498 | 12/8/98 | Margarita Rodriguez | \$1,587 | 2/2/99 | Stuyvesant Business Center | \$18,333 |
| 8499 | 12/8/98 | Child's Family Care Play Day | \$1,815 | 2/3/99 | Teaching Strategies | \$411 |
| Total | | 14 | \$ 14,913 | | 14 | \$24,452 |

TABLE IX

Checks with Duplicate Check Numbers
From the General Administration Account

| Check Number | Date of Check | Payee | Dollar Amount | Date of Check with Duplicate Number | Payee | Dollar Amount |
|---------------------|----------------------|--------------|----------------------|--|---|----------------------|
| 16029 | 6/24/98 | Denise Pedro | \$ 167 | 9/28/98 | FFG-NJ Vehicle Funding Corp. of NJ | \$ 1,100 |
| 16038 | 7/8/98 | Denise Pedro | \$ 2,005 | 10/4/98 | Fast Signs | \$ 587 |
| 16050 | 7/22/98 | Denise Pedro | \$ 2,006 | 11/2/98 | Con Edison | \$ 916 |
| 16051 | 7/22/98 | Denise Pedro | \$ 2,005 | 10/27/98 | Landrover | \$ 1,645 |
| 16052 | 7/22/98 | Denise Pedro | \$ 167 | 10/27/98 | Capitol One | \$ 1,000 |
| 16073 | 8/19/98 | Denise Pedro | \$ 167 | 11/4/98 | Chase | \$ 3,400 |
| 16118 | 9/2/98 | Denise Pedro | \$ 2,005 | 1/21/99 | AVIS | \$ 666 |
| 16136 | 9/30/98 | Denise Pedro | \$ 2,005 | 1/31/99 | AETNA US Healthcare | \$ 695 |
| 16179 | 12/9/98 | Denise Pedro | \$ 2005 | 3/23/99 | E-Z Pass | \$ 100 |
| 16180 | 12/9/98 | Denise Pedro | \$ 182 | 3/23/99 | E-Z Pass | \$ 200 |
| 16197 | 1/6/99 | Denise Pedro | \$ 167 | 4/15/99 | AETNA US Healthcare | \$ 1,389 |
| 16216 | 1/20/99 | Denise Pedro | \$ 2,005 | 5/14/99 | Iceberg | \$ 2,740 |
| 16217 | 1/20/99 | Denise Pedro | \$ 311 | 5/14/99 | FFG-NJ Vehicle Funding Corp. of NJ | \$ 550 |
| 16224 | 2/3/99 | Denise Pedro | \$ 2,005 | 5/14/99 | American Management Association | \$ 149 |
| 16233 | 2/17/99 | Denise Pedro | \$ 1,957 | 5/14/99 | Frost Valley YMCA | \$ 2,069 |
| 16242 | 3/3/99 | Denise Pedro | \$ 167 | 5/14/99 | Allen A.M.E | \$ 1,400 |
| 16252 | 3/17/99 | Denise Pedro | \$ 240 | 5/17/99 | Home Depot | \$ 294 |
| 16270 | 4/14/99 | Denise Pedro | \$ 167 | 6/6/99 | American Airlines | \$ 1,525 |
| 16275 | 4/28/99 | Denise Pedro | \$ 2,128 | 6/9/99 | American College of Medical Development | \$ 200 |
| 16290 | 5/26/99 | Denise Pedro | \$ 167 | 6/20/99 | Chase | \$ 1,800 |
| Total | | 20 | \$22,028 | | 20 | \$22,425 |

According to the *Guide to Fraud Investigations*, using duplicate check numbers is either an abuse of an organization's internal control system or an indication that there is no internal control system; it may also indicate that fraud has occurred or is occurring.

Checks Were Paid from and Deposited into the Same Account

From the period October 28, 1998, through November 11, 1998, there were 34 checks totaling \$27,608 (24 checks from the ACS Account totaling \$21,891 and 10 checks from SICC's General Administration Account totaling \$5,717) that were made out to various payees but that were not deposited in their accounts. Rather, the payer (SICC) deposited the checks into its account as "deposit only."

The endorsements on the backs of some of the 34 checks stated "deposit only" while the backs of other checks contained the signatures of the payees as well as "deposit only." We also noted that the payees (operators of the Center's family day care homes) of 12 of the 34 checks were the same as those cited under a prior section regarding duplicate check numbers.

For example, from the General Administration Account:

- One check for \$1,389 was made out to AETNA US Healthcare on October 28, 1998. This check appeared on the bank statement as having cleared; however, Aetna US Healthcare did not endorse the back of the check. Instead, the check was endorsed by SICC as "deposit only" and deposited into its General Administration Account.
- One check for \$550 was made out to FFG-NJ Vehicle Funding Corp. of New Jersey, also issued on October 28, 1998. This check appeared on the bank statement as having cleared; however, FFG-NJ Vehicle Funding Corp of New Jersey did not endorse the check. Rather, the check was endorsed by SICC as "deposit only" and deposited into its General Administration Account.

For example, from the ACS Account:

- One check for \$2,900 was made out to Universal Maintenance Service on November 11, 1998. This check appeared on the bank statement as having cleared; however, Universal Maintenance Service did not endorse the check. Rather, the check was endorsed by SICC as "deposit only" and deposited into its ACS Account.
- One check for \$156 was made out to Con Edison on October 28, 1998. This check appeared on the bank statement as having cleared; however, Con Edison did not endorse the back of the check. Rather, the check was endorsed by SICC as "deposit only" and deposited into its ACS Account.

According to the *Fraud Examiners Manual* prepared by the National Association of Certified Fraud Examiners, illicit payments are often made by normal business checks, cashier's checks, and wire transfers, and are disguised on the books as some sort of legitimate business expenses. We believe that SICC tried to show that it had incurred expenses totaling \$27,608 to report in its financial records by issuing checks to legitimate payees. However, these checks were never sent to the payees but were deposited into SICC's accounts so that eventually the funds could be withdrawn for personal use.

We could not understand how bank tellers from J. P. Morgan Chase overlooked the 34 checks that were cashed from and deposited into the same account. However, after further investigation, we learned that SICC's bookkeeper, who was a former Board Member of SICC, worked as an accountant at J. P. Morgan Chase.

Recommendations

ACS should take measures to ensure that:

1. The matters identified in this report regarding the irregularities in SICC financial practices are investigated.

ACS Response: "ACS/Office of Child Care (OCC) referred this matter to its Legal Division for evaluation and potential referral to the New York City Law Department for recovery of funds. Also, this report was referred to the Inspector General (IG) and the Department of Investigation (DOI) for any action these entities . . . deem appropriate. ACS/OCC will cooperate fully in any investigation."

2. It recoups from SICC the potentially misappropriated funds we identified, totaling \$727,992.

ACS Response: "ACS no longer has a contractual relationship with this organization, therefore, recoupment through payment reductions is not an option. ACS/OCC referred this matter to its Legal Division for evaluation . . . for recovery of funds."

3. The three additional bank accounts (Whitney M. Young Teachers Association Account, Children's Holding Corporation Account, and a money market account) not disclosed to us are investigated and a determination be made whether there are any additional potentially fraudulent transactions and misappropriation of funds.

ACS Response: "ACS/OCC recommended in its referral to the IG and DOI that these accounts be investigated as part of their investigation."

4. An investigation is conducted to determine whether anyone other than Denise Pedro, the Center's former Executive Director, was involved with the irregularities in SICC financial practices.

ACS Response: "ACS/OCC recommended that the previously mentioned investigation determine if anyone other than Ms. Pedro was involved in the financial irregularities of SICC."

In addition, ACS should:

5. Ensure that it does not award any future contracts to SICC or other organizations that have any associations with SICC's board members or its former Executive Director.

ACS Response: "ACS will recommend that a Vendex caution be issued against this organization and its former executive director and will no longer enter into contractual relationships with SICC or other organizations that have any association with SICC's board members or its former Executive Director."

6. Require day care centers to develop and implement internal control procedures to ensure accountability for City funds.

ACS Response: "ACS/OCC has developed new Internal Control guidelines, including a checklist, and now offers additional training specifically in internal controls as part of its yearly series of training sessions."

7. Implement procedures to ensure regular and adequate monitoring of the financial practices of day care centers.

ACS Response: "Annual audits of all City funded child care programs, performed by CPAs, are contractually required. ACS will take measures to ensure that all audit findings and any fiscal irregularities are appropriately addressed."



Administration for Children's Services

(Page 1 of 9)

150 William Street – 18th Floor
New York, New York 10038

William C. Bell
Commissioner

January 29, 2003

Mr. Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York Office of the Comptroller
Executive Offices
1 Centre Street
New York, New York 10007-2341

Re: NYC Comptroller's Audit Report MD02-187A
Whitney M. Young Jr. Day Care Center

Dear Mr. Brooks:

Thank you for sharing with us the Draft Report for the above captioned audit.

Attached is our response to your recommendations and appropriate Audit Implementation Plans (AIPs). ACS looks forward to working with your office 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 contact me.

Sincerely,

William C. Bell

Attachments

City of New York Office of the Comptroller
 Whitney M. Young Jr. Day Care Center's Use of
 New York City Administration for Children's Services Funds
 Audit Number MD02-187A

**Administration for Children's Services (ACS)
 Response to Recommendations**
 January 29, 2003

The Whitney M. Young Jr. Day Care Center has been closed and ACS has terminated its contract with the day care sponsor, Staten Island Children's Center (SICC) effective June 30, 2001.

Recommendations 1, 2, 3 and 4

ACS no longer has a contractual relationship with this organization, therefore, recoupment from payments to the program is not possible. Any action to recover these funds must be through legal action. ACS referred the matter to the appropriate agencies that handle legal matters and recommend recovery of funds as an avenue that should be pursued.

ACS/OCC (Office of Child Care) referred the matter to its Legal Division for evaluation and potential referral to the New York City Law Department for recovery of funds. Also, this report was referred to the Inspector General (IG) and the Department of Investigation (DOI) for any action these entities, which are empowered to investigate and deal with criminal wrongdoing, deem appropriate. ACS/OCC recommended that the investigation include looking into the three additional bank accounts and also determine if anyone other than Ms. Pedro was involved in the financial irregularities of SICC. ACS/OCC will cooperate fully in any investigation.

Recommendation 5

ACS will recommend that a Vendex caution be issued against this organization and its former executive director and will no longer enter into contractual relationships with SICC or other organizations that have any association with SICC's board members or its former Executive Director.

Recommendation 6

ACS/OCC has developed new Internal Control guidelines, including a checklist, and now offers additional training specifically in internal controls as part of its yearly series of training sessions. In addition the annual audit, that is required of City funded child care programs, reviews internal controls and cites any deficiencies in this area.

Recommendation 7

Annual audits of all City funded child care programs, performed by CPAs, are contractually required. ACS will take measures to ensure that all audit findings and any fiscal irregularities are appropriately addressed. ACS/OCC monitors and gives technical assistance to programs.

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT OF WHITNEY M. YOUNG JR. DAY CARE CENTER COMPLIANCE
WITH ITS CONTRACT WITH THE NEW YORK CITY ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: MD02-187A**

RECOMMENDATION # 1 ACS should take measures to ensure that the matters identified in this report regarding the irregularities in SICCC financial practices are investigated.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACD

| CORRECTIVE ACTIONS TO BE TAKEN | RESPONSIBLE PERSON | DATES | | DOCUMENTATION | COMMENTS |
|---|-----------------------|----------|-----|---------------|----------|
| | | START | END | | |
| ACS/Office of Child Care (OCC) referred this matter to its Legal Division for evaluation and potential referral to the New York City Law Department for recovery of funds. Also, this report was referred to the Inspector General (IG) and the Department of Investigation (DOI) for any action these entities, which are empowered to investigate and deal with criminal wrongdoing, deem appropriate. ACS/OCC will cooperate fully in any investigation. | Larry Lee | 01/15/03 | | Referral memo | |

ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT OF WHITNEY M. YOUNG JR. DAY CARE CENTER COMPLIANCE
WITH ITS CONTRACT WITH THE NEW YORK CITY ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: MD02-187A

RECOMMENDATION # 2 ACS should take measures to ensure that it recoups from SICC the potentially misappropriated funds we identified, totaling \$727,992 from SICC.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACD

| CORRECTIVE ACTIONS TO BE TAKEN | RESPONSIBLE PERSON | DATES START | DATES END | DOCUMENTATION | COMMENTS |
|---|--------------------|-------------|-----------|---------------|----------|
| ACS no longer has a contractual relationship with this organization, therefore, recoupment through payment reductions is not an option. ACS/OCC referred this matter to its Legal Division for evaluation and potential referral to the New York City Law Department for recovery of funds. | Larry Lee | 01/15/03 | | Referral memo | |

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT OF WHITNEY M. YOUNG JR. DAY CARE CENTER COMPLIANCE
WITH ITS CONTRACT WITH THE NEW YORK CITY ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: MD02-187A**

RECOMMENDATION # 3 ACS should take measures to ensure that the three additional bank accounts (Whitney M. Young Teacher's Association Account, Children's Holding Corporation Account, and a money market account) not disclosed to us are investigated and a determination be made whether there are any additional potentially fraudulent transactions and misappropriation of funds.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACD

| CORRECTIVE ACTIONS TO BE TAKEN | RESPONSIBLE PERSON | DATES START | DATES END | DOCUMENTATION | COMMENTS |
|---|--------------------|-------------|-----------|---------------|----------|
| ACS/OCC recommended in its referral to the IG and DOI that these accounts be investigated as part of their investigation. | Larry Lee | 01/15/03 | | Referral memo | |

ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT OF WHITNEY M. YOUNG JR. DAY CARE CENTER COMPLIANCE
WITH ITS CONTRACT WITH THE NEW YORK CITY ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: MD02-187A

RECOMMENDATION # 4 ACS should take measures to ensure that an investigation is conducted to determine whether anyone other than Denise Pedro, the Center's former Executive Director, was involved with the irregularities in SICC financial practices.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACD

| CORRECTIVE ACTIONS TO BE TAKEN | RESPONSIBLE PERSON | DATES START | DATES END | DOCUMENTATION | COMMENTS |
|--|--------------------|-------------|-----------|---------------|----------|
| ACS/OCC recommended that the previously mentioned investigation determine if anyone other than Ms. Pedro was involved in the financial irregularities of SICC. | Larry Lee | 01/15/03 | | Referral memo | |

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
 NEW YORK CITY COMPTROLLER'S AUDIT OF WHITNEY M. YOUNG JR. DAY CARE CENTER COMPLIANCE
 WITH ITS CONTRACT WITH THE NEW YORK CITY ADMINISTRATION FOR CHILDREN'S SERVICES
 AUDIT NUMBER: MD02-187A**

RECOMMENDATION # 5 ACS should ensure it does not award any future contracts to SICCC or other organizations that have any association with SICCC's board members or its former Executive Director.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACD

| CORRECTIVE ACTIONS TO BE TAKEN | RESPONSIBLE PERSON | DATES START | DATES END | DOCUMENTATION | COMMENTS |
|---|--------------------|-------------|-----------|---------------|----------|
| ACS will recommend that a Vendex caution be issued against this organization and its former executive director and will no longer enter into contractual relationships with SICCC or other organizations that have any association with SICCC's board members or its former Executive Director. | Larry Lee | 01/13/03 | | | |

ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT OF WHITNEY M. YOUNG JR. DAY CARE CENTER COMPLIANCE
WITH ITS CONTRACT WITH THE NEW YORK CITY ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: MD02-187A

RECOMMENDATION # 6 ACS should require day care centers to develop and implement internal control procedures to ensure accountability for City funds.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACD

| CORRECTIVE ACTIONS TO BE TAKEN | RESPONSIBLE PERSON | DATES START | DATES END | DOCUMENTATION | COMMENTS |
|---|---------------------------|-------------|-----------|--|----------|
| ACS/OCC has developed new Internal Control guidelines, including a checklist, and now offers additional training specifically in internal controls as part of its yearly series of training sessions. In addition the annual audit, that is required of City funded child care programs, reviews internal controls and cites any deficiencies in this area. | Larry Thomas Tom Welsh | 09/02 | | New Internal Control Guidelines Review of the annual CPA audits | |

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RECOMMENDATION # 7 ACS should implement procedures to ensure regular and adequate monitoring of the financial practices of day care centers.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACD

| CORRECTIVE ACTIONS TO BE TAKEN | RESPONSIBLE PERSON | DATES START | DATES END | DOCUMENTATION | COMMENTS |
|---|---|-------------|-----------|---|----------|
| Annual audits of all City funded child care programs, performed by CPAs, are contractually required. ACS will take measures to ensure that all audit findings and any fiscal irregularities are appropriately addressed. ACS/OCC monitors and gives technical assistance to programs. | Harvey Newman Larry Lee Larry Thomas Tom Welsh | 01/13/03 | | Annual CPA audits and ACS/OCC fiscal technical support staff field reports. | |