

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit on the Oversight of Contracted Day Care Centers by the Administration for Children's Services

ME01-179A

June 25, 2003



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, § 93, of the New York City Charter, my office has examined the adequacy of Administration for Children's Services oversight of contracted day care centers.

The results of our audit, which are presented in this report, have been discussed with Officials from the Administration for Children's Services, and their comments were considered in the preparation of this report.

Audits such as this provide a means of ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at (212) 669-3747.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.

Report: ME01-179A
Filed: June 25, 2003

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

**Audit Report on the
Oversight of Contracted Day Care Centers
By the Administration for Children's Services**

ME01-179A

AUDIT REPORT IN BRIEF

This audit determined the adequacy of oversight of contracted day care centers by the Administration for Children's Services (ACS). ACS is responsible for ensuring that all publicly funded day care centers meet Federal, State, and City regulations. Among its primary duties, ACS reviews every sponsor's annual audit report to ensure that all fiscal obligations are met. In addition, its staff visit every day care center and perform program evaluations. In Fiscal Year 2001, ACS had contracts with 260 sponsors that operated a total of 493 day care centers throughout the five boroughs and cost the City a total of \$440 million.

Audit Findings and Conclusions

ACS oversight of the day care centers is ineffective and lacks a coordinated and comprehensive approach by the four monitoring units responsible for overseeing the fiscal and programmatic requirements of the contracted day care centers. Our testing of 50 randomly selected sample of sponsors¹ found the following:

- Six percent of our sampled sponsors failed to submit an annual audit report to ACS, and 59 percent of the remaining sponsors submitted the annual report after the required due date.
- Twenty-four percent of the sampled sponsors engaged CPA firms that were not on the Comptroller's Pre-qualified List, as required by ACS Interim Audit Guidelines.
- Forty-three percent of the sampled sponsors who collected private tuition failed to include those funds in their financial statements.

¹ We selected one day care center for each of our 50 sampled sponsors.

- There is little communication among the four separate units that monitor and evaluate the sponsors' performance. In addition, these units have no central tracking system to allow these units to readily identify outstanding deficiencies. As a result, fiscal and programmatic deficiencies remain unresolved or go undetected.
- There are inadequate outreach efforts by ACS to train staff at day care centers that are poorly run and identified by ACS as having serious problems. As a result, the staff most in need of training are not taking the classes offered by ACS.
- ACS failed to perform an annual programmatic evaluation at 20 percent of our sampled day care centers. Half of these day care centers were classified by ACS as "needing the most assistance."

Audit Recommendations

To address these issues, we make 14 recommendations. Among them, we recommend that the Administration for Children's Services:

- Include in the ACS Interim Audit Guidelines a specific date for sponsors to submit a letter attesting to the engagement of an independent auditor to perform an annual audit. If a sponsor fails to comply by the due date, the director of the Audit Review and Fiscal Compliance Unit should promptly contact the sponsor.
- Determine whether the CPA firm selected by a sponsor is from the current Pre-qualified CPA List. If not, the fiscal unit director should send a reminder to the sponsor that only CPA firms on the Pre-qualified List are acceptable. A current copy of the Comptroller's Pre-qualified CPA List should be included in the reminder.
- Determine whether each day care center has private tuition students and ensure that this information is accurately reflected in the annual audit reports prepared by the CPA firms.
- Consider reorganizing the Audit Review and Fiscal Compliance Unit and the Technical Assistance Unit to improve communication, avoid duplication of effort, and hold those in charge accountable for all fiscal matters, including reviewing the audit reports, visiting the day care centers, and providing fiscal training to both sponsors and employees of the day care centers.
- Update and develop clearly written procedures and establish a strong internal control structure to ensure that day care centers and sponsors are properly evaluated, that fiscal deficiencies are identified and resolved, and that day care centers and sponsors receive appropriate assistance in resolving fiscal deficiencies.
- Consider reorganizing the Program Assessment Unit and Resource Area Units to improve communication and to hold those in charge accountable for all programmatic

matters of day care centers, including performing annual program evaluations, visiting the day care centers, and responding to the centers' program needs.

- Update and develop clearly written procedures and establish a strong internal control structure to ensure that day care centers and sponsors are properly evaluated, that program deficiencies are identified and resolved, and that day care centers and sponsors receive appropriate assistance in resolving program deficiencies.
- Develop and implement a centralized automated tracking system that includes all the day care centers and sponsors, complete with defined milestones, to ensure that each day care center and sponsor complies with applicable contract requirements. In addition, this system should record deficiencies that remain unresolved at each day care center so that the monitoring unit can follow up to ensure that outstanding deficiencies are resolved. This system should be accessible to all the ACS units.

ACS Response

The matters covered in this report were discussed with ACS officials during and at the conclusion of this audit. A preliminary draft report was sent to ACS officials on April 1, 2003, and was discussed at an exit conference on April 25, 2003. We submitted a draft report to ACS officials on May 1, 2003, with a request for comments. We received a written response from ACS officials on May 22, 2003.

In its response, ACS agreed with 10 of the audit recommendations and partially agreed with the remaining four (#4, #6, #11, and #12). In addition, ACS stated, "A major reconfiguration of ACS Child Care is now underway and as a result of this reconfiguration, the responses to these recommendations may change." The full text of the ACS response is included as an addendum to this report.

INTRODUCTION

Background

The Administration for Children's Services (ACS) was created January 10, 1996, as the first City agency solely devoted to serving children and their families. It provides quality child care services that enhance child development, and help families achieve and maintain self-sufficiency. As part of its mission, ACS enters into contracts with community-based organizations that sponsor day care centers. ACS provides support services to the centers and monitors their services. In Fiscal Year 2001, ACS had contracts with 260 sponsors that operated a total of 493 day care centers throughout the five boroughs. The allotted 61,553 day care center slots were filled and cost the City a total of \$440 million.

ACS is responsible for ensuring that all publicly funded day care centers meet federal, State, and City regulations. Among its primary duties, ACS reviews every participating sponsor's annual audit report to ensure that all fiscal obligations are met. In addition, its staff members visit every day care center and perform programmatic evaluations. This evaluation covers a variety of areas including, but not limited to, teacher qualifications, student-teacher ratios, staffing levels, health records for students and staff, nutrition, the adequacy of the lunch program, safety, and cleanliness of the facility.

ACS has four separate units that monitor and evaluate the sponsor's performance at each day care center. These units and their responsibilities are as follows:

- The Audit Review and Fiscal Compliance Unit is responsible for ensuring that each sponsor hires a certified public accountant (CPA) on the New York City Comptroller's list of CPA firms to perform an annual audit of the sponsor's financial activities. Once the unit receives the audit report, it reviews and summarizes the fiscal deficiencies cited, if any. The unit works with the sponsors to resolve these deficiencies. Deficiencies that remain unresolved are forwarded to the Technical Assistance Unit for resolution. In Fiscal Year 2001, this unit consisted of a director and four staff members.
- The Technical Assistance Unit is responsible for assisting sponsors to operate day care centers in compliance with the terms of their contracts with regard to fiscal record-keeping and reporting requirements. It provides training through on-site visits and seminars at ACS facilities. It also assists sponsors in the resolution of deficiencies identified by the Audit Review and Fiscal Compliance Unit. In Fiscal Year 2001, this unit consisted of a director and five staff members.
- The Program Assessment Unit is responsible for performing an annual programmatic evaluation of each day care center to determine its compliance with the ACS contract and with applicable City and State regulations. The evaluation identifies weaknesses in the operation of the day care centers, including the educational program, safety,

supervision, and the environment. In Fiscal Year 2001, this unit consisted of a director and four program assessors.

- The Resource Area Units are the day care centers' main contact with ACS. There are four units—one each in the Bronx, Brooklyn-Staten Island, Manhattan, and Queens. Directors at the day care centers contact the Resource Area Unit for help with problems; thus unit staff are the first to respond to centers when emergencies occur. In addition, the Resource Area Units conduct site visits to evaluate specific components of the programs and to help the centers resolve weaknesses identified during their site visits, as well as those identified by the Program Assessment Unit. In Fiscal Year 2001, these units had four directors, two deputy directors, and 18 staff members.

Over the past three years, we have issued nine audit reports covering various aspects of nine day care centers throughout the City (see Appendix I). Because of the similarities of the findings in these reports, we conducted this audit.

Objective

The objective of this audit was to determine whether ACS is providing adequate oversight of the day care centers under contract with the City.

Scope and Methodology

The scope of this audit was Fiscal Year 2001 through September 2002.

To gain an understanding of ACS operations, we reviewed the ACS Purchase of Day Care Services Agreement used to contract with the day care center sponsors, applicable ACS policies and procedures, New York State regulations, and the New York City Health Code (Article 47). During the course of the audit, we interviewed ACS officials and conducted walk-throughs at each of the four units responsible for overseeing this program.

For our audit tests, we randomly selected a sample of 50 sponsors from the 260 sponsors. (These 50 sponsors operate 78 of the 493 day care centers.) To determine whether ACS ensured that sponsors complied with the provisions of their contract requiring submission of an independent annual audit report, we obtained copies of all annual audit reports submitted by the sampled sponsors for Fiscal Year 2000, the reports that ACS would review in Fiscal Year 2001. In addition, to determine whether the sponsors hired firms from the Comptroller's Pre-qualified CPA List to conduct annual audits, we compared the CPA firms listed on the audit reports against the City Comptroller's pre-qualified list.

To determine whether ACS ensured that sponsors submitted their annual audit reports on time, we checked the stamped receipt dates on the annual audit reports against ACS's due date. In addition, we reviewed ACS records to determine whether ACS followed its own procedures regarding those sponsors who did not submit their reports on time.

To determine whether ACS ensured that sponsors reported any private tuition collected, we reviewed the audit reports for our sampled sponsors. For those audit reports with no private tuition reported, we looked for a statement affirming that the sponsor had no private students and therefore no private tuition to report. We conducted a telephone survey of our sampled sponsors to determine which sponsors accepted private tuition students and compared the results to the information presented in the audit reports.

To determine whether ACS adequately reviewed the annual audit reports and identified all the deficiencies cited, we compared the annual audit reports to ACS records. We also reviewed supporting documentation to determine whether the deficiencies were resolved and whether ACS properly followed up on unresolved deficiencies.

To determine whether ACS performed field visits to identify fiscal weaknesses at the day care centers and ensured all identified fiscal deficiencies were corrected, we reviewed the documentation in ACS files.

To determine whether ACS ensured that sponsors with fiscal problems took advantage of the training it offered, we reviewed the training attendance records maintained by ACS. We compared the names of the attendees and the sponsors they represented to ACS records of those sponsors with fiscal problems.

To determine whether ACS performed an annual program evaluation, we selected one day care center for each of our 50 sampled sponsors and reviewed all the records, including the evaluation reports maintained by ACS. Further, we reviewed ACS records to determine whether the deficiencies reported in the evaluations were resolved and whether ACS properly followed up on unresolved deficiencies.

To determine whether ACS made regular site visits to identify program weaknesses at the day care centers and ensured that all identified program deficiencies were corrected, we reviewed the documentation in ACS files.

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. The 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.

Discussion of Audit Results

The matters covered in this report were discussed with ACS officials during and at the conclusion of this audit. A preliminary draft report was sent to ACS officials on April 1, 2003, and was discussed at an exit conference on April 25, 2003. We submitted a draft report to ACS officials on May 1, 2003 with a request for comments. We received a written response from ACS officials on May 22, 2003. In its response, ACS agreed with 10 of the audit recommendations and partially agreed with the remaining four (#4, #6, #11, and #12). In addition, ACS stated, "A major reconfiguration of ACS Child Care is now underway and as a

result of this reconfiguration, the responses to these recommendations may change.” The full text of the ACS response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

ACS oversight of the day care centers is ineffective and lacks a coordinated and comprehensive approach by the four monitoring units responsible for overseeing the fiscal and programmatic requirements of the 493 contracted day care centers. ACS's inadequate monitoring of the sponsors and the day care centers, its duplication of efforts and its failure to assume responsibility for resolving identified problems resulted in the findings cited in our previous reports of day care centers and are the main reasons for the findings of this audit. Specifically, this audit found that:

- Annual audit reports are not submitted or are submitted late by the sponsors;
- CPA firms are not selected in accordance with ACS guidelines;
- Private tuition funds are not reported according to ACS guidelines;
- Fiscal and programmatic deficiencies remain unresolved;
- Outreach efforts to train day care center personnel are inadequate; and
- Annual program evaluations of all day care centers are not being performed.

During the course of our audit, we were often told that monitoring unit staff members were expected to assist the ACS contract and Request for Proposal (RFP) units with the RFP process rather than with the day-to-day monitoring of the centers.² In effect, the four ACS monitoring units are not doing enough to monitor the day care centers and allow the RFP process to override the agency's prescribed oversight responsibilities.

The following sections detail the audit's principal findings:

Inadequate Monitoring of the Fiscal Performance of Sponsors

Annual Audit Reports Were Not Submitted Or Were Submitted Late

The *ACS Interim Audit Guidelines for Day Care Contract Agencies for Obtaining Audit Coverage for Fiscal Year 2000* (Interim Audit Guidelines) and the standard ACS contract require that the sponsor retain a CPA to examine the fiscal records maintained by the day care centers and to submit an annual audit report to ACS by the established due date.³ We found that 29 (59%) of the 49 sampled sponsors submitted the Fiscal Year 2000 reports after the required due

² The RFP is a package of documents used to solicit competitive proposals for awarding contracts.

³ The due date of the annual audit report varies from year to year. For Fiscal Year 2000, the due date was December 31, 2000.

date.⁴ In addition, three (6%) of the 49 sampled sponsors failed to submit an audit report to ACS for Fiscal Year 2000. Those three sponsors were budgeted a total of \$2,898,745 (\$441,772, \$825,864, and \$1,631,109 respectively) in City funds for Fiscal Year 2000. Without the annual audit reports, there is no independent verification of accountability for the funds, which could indicate the existence of a potential problem.

ACS does very little to enforce the annual audit requirement. We reviewed the files maintained at the Audit Review and Fiscal Compliance Unit and found copies of letters reminding the three sponsors mentioned above of their responsibility to submit the annual audit reports. Several reminders were sent, but there was no response. The director of the unit notified the Associate Commissioner of this situation and took no further action. There was no documentation in the files to show that the Associate Commissioner pursued the matter further. By ignoring this contract provision, ACS runs the risk of possible mismanagement of funds or worse, the possibility of fraud. In fact our audit of the Whitney M. Young Jr. Day Care Center (Audit #MD02-187A, issued February 13, 2003) highlights this condition. That audit found potentially fraudulent transactions and misappropriations of funds by both the day care center and the sponsor totaling \$727,992. ACS should have been alerted to a potential problem at the center when the sponsor failed to submit the Fiscal Year 1999 annual audit report to ACS.

Under the current contract, ACS has very little power to enforce submission of the annual audit report. According to the Associate Commissioner, ACS does not want to close day care centers for failing to submit the reports. Although the contract states that non-submission of an annual audit report for any given year will have an adverse impact on the program's future contracts, it does not spell out a penalty for non-submission. Specific penalties should be included in the contract so that sponsors would know that there are consequences for non-submission of a report.

In addition, ACS procedures require that if an audit deadline cannot be met, the sponsoring board must submit a written explanation for the lateness, as well as the expected submission date. As stated earlier, 29 sponsors submitted their reports between 12 and 179 days after the required due date. A review of the files showed that none of the 29 sponsors sent letters to ACS explaining the reason for the lateness and providing the expected date of submission. Moreover, the Audit Review and Fiscal Compliance Unit failed to follow ACS procedures; it did not send out letters to 17 (59%) of the 29 sponsors reminding them of their responsibility.

The following table is a breakdown of the number of sponsors who were late in submitting the annual report, showing the ranges of days overdue.

⁴ One of the day care centers is a federally funded program that is not required to submit an annual audit report.

Table I

Schedule of Late Submission of Audit Reports

No. of Days Late	No. of Sponsors
1-50 days	7
51-100 days	9
101-150 days	8
151-179 days	5
Total	29

By not closely monitoring the timely submission of the audit reports, ACS runs the risk of not being alerted to potential fiscal problems occurring at the centers and a consequent delay in its ability to help the centers to resolve these problems. For example, our audit of the Inwood Nursery Day Care Center (Audit #ME01-125A, issued June 11, 2001) found that the Fiscal Year 1999 CPA audit report due on October 31, 1999, was sent to ACS in February 2001—nearly sixteen months after it was due. Our 2001 audit questioned the adequacy of ACS in monitoring this requirement as evidenced by their not even requesting the Fiscal Year 1999 audit report until our auditors alerted them to the fact that it had never been submitted. Our 2001 audit further stated:

“Upon receipt of the audit report ACS first discovered that the CPA had issued a disclaimer of opinion for various reasons including:

- The CPA could not rely on the accuracy of the books and records;
- The Center did not exercise budget and expenditure controls; and
- The statement of assets, liabilities, and fund balance contained an amount due from the Board of \$55,745; the CPA questioned the ability of the Center to collect this amount.”

Our 2001 audit report illustrated that by not strongly enforcing regulations and responding immediately to instances of non-compliance, ACS continues to allow abuses to occur and go undetected for long periods of time.

CPA Firms Were Not Selected in Accordance With ACS Guidelines

ACS Interim Audit Guidelines require that sponsors engage private CPA firms to perform annual audits. According to the guidelines, “The audit firm must be independent and licensed to practice in New York State and also must be on the New York City Comptroller’s ‘Pre-qualified CPA List.’” ACS does not enforce this requirement; 12 (24%) of the 49 sponsors in our sample engaged CPA firms that were not on the Comptroller’s Pre-qualified List.

To be included on the pre-qualified list, CPA firms must meet certain requirements and follow all the City rules and regulations for audit reports. Firms not on the pre-qualified list may not have the necessary qualifications and experience. In addition, by permitting sponsors to hire CPA firms not on the pre-qualified list, ACS fails to enforce New York City Procurement Policy Board Rule § 3-10, which states: “An agency seeking to award an audit contract shall solicit only those suppliers that have been pre-qualified by the Comptroller.”

Furthermore, ACS guidelines require the sponsors to inform ACS of their selection by sending a letter stating the CPA’s profile, as well as two signed copies of an engagement letter on the CPA firm’s letterhead. We reviewed the files and found no engagement letters in any of the sponsors’ folders identifying the CPA firms engaged to perform the annual audits. Such letters would have enabled ACS to easily determine whether the selected CPA firms were chosen from the pre-qualified list. In addition, the engagement letter is an important monitoring tool. It provides assurance that a CPA firm was hired by the sponsor to complete the annual audit at a specific time.

Recommendations

ACS should:

1. Include in the ACS Interim Audit Guidelines a specific date for sponsors to submit a letter attesting to the engagement of an independent auditor to perform an annual audit. If a sponsor fails to comply by the due date, the director of the Audit Review and Fiscal Compliance Unit should promptly contact the sponsor.

ACS Response: The Department agreed, stating: “ACS will include in the Interim Audit Guidelines a specific date for sponsors to submit a letter attesting to the engagement of an independent auditor to perform an annual audit. If a sponsor fails to comply by the due date, the director of the Audit Review and Fiscal Compliance Unit will promptly contact the sponsor.”

2. Determine whether the CPA firm selected by a sponsor is from the current Pre-qualified CPA List. If not, the fiscal unit director should send a reminder to the sponsor that only CPA firms on the Pre-qualified List are acceptable. A current copy of the Comptroller’s Pre-qualified CPA List should be included in the reminder.

ACS Response: The Department agreed, stating: “ACS will strongly recommend, in the Fiscal Year 2003 Audit Guidelines and, thereafter, that sponsors select CPA firms to perform annual their audits that are currently included in the Comptroller’s Pre-qualified List. The current CPA Pre-qualified list will be sent to the sponsors along with the Audit Guidelines”

3. Consult the ACS legal department in developing and incorporating specific penalties for sponsors who do not comply with their contract terms.

ACS Response: The Department agreed, stating: “ACS has sought changes in the contract to allow greater flexibility in applying penalties for non-compliance. ACS/Child Care will continue to explore with ACS/Legal, options for establishing specific penalties for non-compliance”

Private Tuition Funds Were Not Reported According to the Guidelines

The ACS Interim Audit Guidelines require CPA firms auditing City-funded day care centers to report private tuition collected by the centers. The guidelines state: “The auditor should receive written representation from the delegate agency that the delegate agency has provided the auditor with all the private tuition books of account or that there are **NO** private tuition funds and make a note thereof in the audit report.” [Emphasis in original.] Day care centers are permitted to enroll private students—children whose parents do not qualify for ACS-subsidized care. The parents of those children pay the cost as private tuition. The ACS *Administrative Advisory for Private Tuition Payments in Publicly-funded Child Care Programs* requires that private tuition funds be deposited in and disbursed from a separate bank account and that the funds be used to enhance the total day care program.

ACS does not track which sponsors enroll private students in their programs; it relies solely on the audit reports for information regarding private tuition. It does not independently verify which of the centers collect private tuition. We therefore conducted our own survey of the 50 sponsors⁵ and found the following:

- Twelve (43%) of the 28 sponsors who collected private tuition funds failed to include those funds in their financial statements. In one instance, the sponsor instructed the CPA firm to omit from its report \$14,000 in private tuition collections. The CPA firm omitted the private tuition collected on the financial statement portion of the audit report, but added a note stating: “It is the opinion of the Agency [sponsor] that these fees should not be included in its ACS fund operations.”
- Six (38%) of the 16 sponsors who reported private tuition funds as revenue failed to disclose how the money was spent and failed to follow the reporting guidelines.
- All 17 sponsors in our sample who had no private students failed to follow the reporting guidelines by not including the required statement that there were no private tuition funds.

In addition, six of our nine (67%) prior audit reports found that sponsors comingled private tuition funds with City funds or that private tuition funds were misappropriated. The following is a brief description of the conditions cited at these six centers:

- Starlight Day Care Center (Audit #ME01-193A, issued June 5, 2002): \$14,192 in private student tuition collected during Fiscal Year 2001 could not be accounted for.

⁵ Five sponsors were not required to report private tuition because they were Limited Purchase of Service centers where ACS purchases seats and are therefore not fully funded by ACS.

- Jamaica NAACP Day Care Center (Audit #FP01-112A, issued February 27, 2002): the center undercharged parents \$27,482 in private student tuition fees and used \$13,582 to pay for questionable or unallowable expenses.
- Martin de Porres Day Care Center (Audit #FP00-136A, issued November 9, 2000): the center undercharged parents for private student tuition fees by \$21,783; used \$6,254 to pay for non-program enhancements, and never deposited \$1,265 of the fees it collected.
- Shirley Chisholm Day Care Center (Audit #FP01-086A, issued June 22, 2001): the parents paying private tuition were undercharged \$17,415 at two of its sites, and a third site did not maintain records. In addition, the center used \$6,523 of private student tuition funds for questionable expenses.
- Inwood Nursery Day Care Center (Audit #ME01-125A, issued June 11, 2001): the center did not maintain a separate bank account for the private tuition it collected. Due to the comingling of funds and the lack of a complete set of receipts for private tuition, there was no way to verify whether all private fees were collected and deposited into Inwood's accounts. In addition, it was impossible to verify whether the private tuition fees were used appropriately to enhance the day care program. Thirdly, it did not charge its private students the full tuition rate required by its contract with ACS. In effect, the Center subsidized each private students' tuition by \$60 per week
- Faith Hope & Charity Day Care Center (Audit #ME00-069A, issued February 27, 2001): the center was cited for not depositing all its private tuition fees into a bank account, and instead treating fees collected like petty cash. Further, Faith Hope & Charity used \$3,360 for inappropriate or undocumented purchases.

Unless ACS independently verifies which sponsors are collecting private tuition and ensures that the sponsors report these funds as required, these problems will continue to occur.

Recommendations

ACS should:

4. Determine whether each day care center has private tuition students and ensure that this information is accurately reflected in the annual audit reports prepared by the CPA firms.

ACS Response: The Department partially agreed, stating: "ACS Audit Guidelines clearly state the auditor must audit the private tuition account, if one exists. If none, the auditor is to make a statement to that effect. The Fiscal Year 2003 Guidelines will emphasize this and audits will be considered incomplete without the required accounting or statement."

Auditor Comment: ACS did not address how they would determine whether day care centers have private tuition students. Previous audits of day care centers often showed that there were discrepancies with private tuition funds. In addition, sponsors do not always make their CPAs aware that such funds were collected by the day care centers during the year. To prevent such problems from occurring, ACS must address this problem and independently identify the day care centers that collect private tuition.

5. Send reminders to the selected CPA firms concerning the requirement to report on private tuition in their audit reports.

ACS Response: The Department agreed, stating: “ACS will communicate through the sponsors to the CPA firms the requirement to report on private tuition in their audit reports.”

Fiscal Deficiencies Remain Unresolved

ACS does not thoroughly review the CPA firms’ audit reports to identify all the deficiencies cited. Nor does ACS assist the sponsors in resolving deficiencies that are identified. As a result, sponsors continue to operate with unresolved fiscal deficiencies and remain in noncompliance with the terms of the ACS contract and guidelines.

The Audit Review and Fiscal Compliance Unit is responsible for reviewing and identifying fiscal deficiencies cited in the audit reports so that corrective action can be taken as quickly as possible. However, this unit has outdated and incomplete written procedures and guidelines to assist it in performing those duties. Our review of the records for our sampled day care centers found that the Audit Review and Fiscal Compliance Unit identified 73 deficiencies in the Fiscal Year 2000 audit reports. However, it failed to identify 12 additional deficiencies cited in those audit reports. Those deficiencies that were not cited included:

- One sponsor received \$101,818 in government funding for the construction of a playground. The sponsor attempted to give this money to the New York City Housing Authority (NYCHA) to build the playground, but NYCHA refused to accept it. The sponsor asked ACS for assistance in resolving this matter, but ACS did nothing to help resolve this issue. After five years, the sponsor gave up and wrote off the liability. As a result, the sponsor never paid for constructing the playground.
- One sponsor was cited for not recording on its books \$27,286 it received from ACS. By ignoring this deficiency ACS has no assurance that the money was spent on the intended purpose of those funds.
- One sponsor was cited for not returning to ACS \$60,418 of unspent funds at the end of the fiscal year, as required.

After attempting to resolve these deficiencies, the Audit Review and Fiscal Compliance Unit forwards all unresolved deficiencies and copies of the annual audit reports to the Technical Assistance Unit for further follow-up efforts. This review of annual reports and the subsequent

follow-up on the fiscal deficiencies by both units is a duplication of effort. However, neither unit assumes the responsibility to ensure that the sponsors resolve outstanding fiscal deficiencies.

In Fiscal Year 2001, the Technical Assistance Unit was responsible for following up on a total of 42 unresolved deficiencies at 19 of our sampled day care centers. Forty of the 42 deficiencies were not resolved. In one instance, a day care center could not balance its books for two consecutive years. In another example, a day care center delayed payment of its payroll taxes two years in a row, resulting in charges for interest and penalties. In a third example, several day care centers did not pay their bills within the required 75 days, and thereby forfeited available discounts.

Often, deficiencies are not resolved by this unit because ACS does not follow its own guidelines by visiting and assisting the centers to resolve outstanding deficiencies. According to the Technical Assistance Unit manual, the staff members of this unit are responsible for visiting centers regularly to assist them in correcting deficiencies identified in the annual audit. We reviewed the files and found that the Technical Assistance Unit had not visited 14 (74%) of the 19 above-mentioned centers that had outstanding deficiencies. The files further indicated that only six of the 50 sampled day care centers were visited during Fiscal Year 2001 and that two of the centers had not been visited since July 1998.

Moreover, there is little communication between the Audit Review and Fiscal Compliance Unit and the Technical Assistance Unit regarding the status of outstanding deficiencies. Improved communication could enhance efficiency by minimizing duplication of efforts. In addition, these units have no central tracking system that readily identifies the location and current status of each deficiency. Since there is no tracking system, management has no easy method of identifying the centers that have unresolved deficiencies and require assistance. A tracking system would allow management to follow-up on the day care centers with unresolved deficiencies and utilize its staff in the most efficient manner.

In conclusion, ACS has the responsibility to ensure that fiscal deficiencies are resolved in a timely manner to prevent improper use of City funds. Therefore, ACS must follow its own guidelines and make a greater effort in monitoring and following up on deficiencies cited in the audit reports.

Recommendations

ACS should:

6. Consider reorganizing the Audit Review and Fiscal Compliance Unit and the Technical Assistance Unit to improve communications, avoid duplication of effort, and hold those in charge accountable for all fiscal matters, including reviewing the audit reports, visiting the day care centers, and providing fiscal training to both sponsors and employees of the day care centers.

ACS Response: The Department partially agreed, stating: “ACS agrees that improved communication would be helpful in better coordinating the monitoring process. ACS is

presently developing an automated database that will serve as a central repository for shared program/fiscal information and status updates. ACS will also explore additional means of improving communication between the two referenced units.”

Auditor Comment: ACS did not address how they plan to reorganize these two units. Since their major reconfiguration is underway, it is important for ACS to consider this recommendation in order to improve communication and avoid duplication of efforts by these two units.

7. Update and develop clearly written procedures and establish a strong internal control structure to ensure that day care centers and sponsors are properly evaluated, that fiscal deficiencies are identified and resolved, and that day care centers and sponsors receive appropriate assistance in resolving fiscal deficiencies.

ACS Response: The Department agreed, stating: “ACS will develop a consolidated Procedures Manual for the Fiscal Support Unit and the Audit Services Unit to ensure a coordinated approach to evaluating and resolving sponsor’s fiscal deficiencies.”

8. Develop and implement a centralized automated tracking system that includes all the day care centers and sponsors, complete with defined milestones, to ensure that each day care center and sponsor complies with applicable contract requirements. In addition, this system should record deficiencies that remain unresolved at each day care center so that the monitoring unit can follow up to ensure that outstanding deficiencies are resolved. This system should be accessible to all the units.

ACS Response: The Department agreed, stating: “ACS is in the process of developing a centralized system to track monitoring data.”

Fiscal Deficiencies Cited in Prior Audits

Prior audits of day care centers conducted by our office found that inadequate monitoring of the centers by ACS permitted at least \$1.4 million in fiscal deficiencies to occur without prior detection.⁶ Table II, below, shows a breakdown of the findings of the nine prior audits conducted by our office and the types of fiscal deficiencies cited:

⁶ These fiscal deficiencies are at various stages of resolution.

Table II

Summary of Fiscal Deficiencies Cited in
Prior Audit Reports of Day Care Centers

Day Care Center/ Audit #	Questionable Expenses	Private Tuition Discrepancies	Misuse/Mis- Appropriation of Funds	Excess Funds Not Returned to ACS	Total Amount
1 .Shirley Chisholm DCC FP01-086A	\$7,211	\$23,938	0	0	\$31,149
2 .Whitney M. Young DCC MD02-187A	0	0	\$727,992	0	\$727,992
3.Inwood Nursery DCC ME01-125A	\$13,454	0	0	\$55,745	\$69,199
4. Faith Hope & Charity DCC ME00-069A	0	\$3,360	\$1,038	0	\$4,398
5.New Life Child Dev. Ctr. FP98-216A	\$147,767	0	\$108,385	\$172,105	\$428,257
6. Martin de Porres DCC FP00-136A	\$5,060	\$28,307	0	\$29,924	\$63,291
7.Asociaciones Dominicanas DCC ME98-230A	\$15,824	0	0	0	\$15,824
8.Jamaica NAACP DCC FP01-112A	0	\$41,064	0	0	\$41,064
9.Starlight DCC ME01-93A	0	\$14,192	0	0	\$14,192
TOTAL	\$189,316	\$110,861	\$837,415	\$257,774	\$1,395,366

In addition, all nine day care centers had numerous internal control issues. The following are examples of these issues:

- Faith Hope & Charity Day Care Center: The center was cited for nepotism, poor record-keeping, and weak payroll practices.
- Inwood Nursery Day Care Center: The center lacked adequate controls over its expenses and failed to safeguard its assets; consequently, there were no records to verify expenses, and assets were missing.
- Shirley Chisholm Day Care Center: Checks were signed by a brother and sister who were board members. The center failed to solicit bids for purchases of equipment and made inappropriate loans to small businesses.
- New Life Child Development Center: Center employees used a portable electric time stamp to record the time worked on their time cards. However, the hours on the time card did not agree with the actual time worked, leading the auditors to question the legitimacy of these records.

Inadequate Outreach Efforts to Train Day Care Center Personnel

The Technical Assistance Unit's outreach effort to train staff at problematic day care centers is inadequate. Although, ACS classified its centers into three categories—(A) well run centers with no identified problems, (B) centers that are well run with minor problems, and (C) problematic centers, poorly run with serious identified problems—it does not do enough to ensure that staff at the 60 centers identified as problematic attend these training classes. Only 22 (16%) of the 137 day care center employees who signed the attendance sheets at the 37 training sessions held were from the problematic centers.

ACS provides training to day care center staff and board members on all matters relating to fiscal operations. The training includes workshops for directors and sponsors, bookkeepers, and other staff members on fiscal matters such as parent fees, private tuition, and audits. Between March and December 2001, the Technical Assistance Unit held 37 training sessions. The outreach effort by ACS consisted of mailing a letter to the day care centers at the end of each year, along with a schedule of training sessions. The letter strongly encouraged the day care centers to have their staff participate in the training sessions. In addition, before specific sessions, an additional letter “reaching out and strongly encouraging” staff members to attend was mailed to the 60 problematic centers. Other than the letters mentioned above, there was no effort to reach out to problematic day care centers. The Technical Assistance Unit did not telephone after the mailing or request confirmation by mail that staff would attend the training and therefore could not determine whether staff members from problematic centers would attend these sessions. In addition, the mailing list used by the Technical Assistant Unit was not current; it listed employees who were no longer employed at the day care centers.

The training sessions are an important way day care staff members can remedy their deficiencies. If ACS does not reach out to the day care centers that need the most training, those centers will continue to operate in an unsatisfactory manner.

Recommendations

ACS should:

9. Maintain an updated ACS mailing list of current sponsors, directors, and day care centers to ensure their current employees receive letters notifying them of upcoming training seminars.

ACS Response: The Department agreed, stating: “ACS will update its program directory and mailing lists to ensure proper notification of training sessions.”

10. Include both telephone calls and confirmation letters in its outreach efforts to ensure that staffs of problematic day care centers attend the training sessions.

ACS Response: The Department agreed, stating “ACS will explore additional means of improving attendance, particularly on the part of programs that are deemed to need it most.”

Inadequate Monitoring of Sponsor Program Performance

Annual Program Evaluations Not Performed

The Program Assessment Unit’s main responsibility is to perform an annual programmatic evaluation at each day care center to determine whether the centers are providing a safe and nurturing environment to children, and to identify deficiencies that need to be corrected. This unit evaluates day care services to ensure continued compliance with the New York City health code by visiting the premises and completing a 75-page program-assessment instrument. During Fiscal Year 2001, this unit failed to perform an annual evaluation at 10 (20%) of the 49 day care centers in our sample.⁷ Five (50%) of the 10 day care centers were classified by ACS as problematic day care centers or those “needing the most assistance” from ACS.

The program assessment instrument is the main tool ACS uses to evaluate all programmatic aspects of a day care center, including food services, social services, supervision and administration, child abuse and maltreatment, safety, parent involvement, etc. In fact, seven (78%) of the nine prior audit reports issued by our office found that background checks for employees were not performed and training in recognizing child abuse and maltreatment had not been provided. By failing to perform an annual evaluation and to ensure that the above-mentioned tasks are performed, ACS may be exposing children to unnecessary risk.

This evaluation takes an average of three days of extensive observations, interviews, and assessment at the centers. When we asked the director of the unit why the above-mentioned centers were not evaluated, she said that she did not have enough staff to perform all the evaluations. In addition, she said, the staff was helping with the RFP process, which takes precedence over all other matters. This, she said, was why the unit was unable to evaluate all day care centers in one year. A further review of the files found that some centers were being evaluated every other year, contrary to ACS guidelines. The guidelines specify that an annual evaluation must be performed to ensure that the centers are in compliance with City and State health codes. In addition, biannual evaluations may leave ACS unaware of problems at day care centers that exist for almost two years by the time the evaluation is finally performed.

The Program Assessment Unit is also responsible for forwarding to the appropriate Resource Area Unit unresolved deficiencies found during the annual evaluation. We reviewed the Program Assessment Unit files and found that the unit did not forward 15 program assessment evaluations with outstanding deficiencies to the appropriate Resource Area Units. Through failure to forward those deficiencies to the Resource Area Unit for resolution, those

⁷ One of the day care centers is a federally funded program that is not evaluated by the Program Assessment Unit.

deficiencies may remain unresolved, and the centers may continue to operate in noncompliance with ACS guidelines and City and State health codes.

Programmatic Deficiencies Remain Unresolved

The Resource Area Units interact with the day care centers on a regular basis. Like the other units, they monitor and evaluate the compliance of day care centers with various rules and regulations of the City and State. During site visits, unit staff members meet with day care center staff, students, and teachers to identify deficiencies and make recommendations to resolve them. In addition, the Program Assessment Unit forwards to the Resource Area Unit for follow-up purposes a copy of the "Performance Review Improvement Plan" that lists unresolved deficiencies identified during the annual evaluations. The Resource Areas Units are responsible for assisting the day care centers in resolving deficiencies.

During Fiscal Year 2001, the Resource Area Units identified 321 deficiencies while performing 180 field visits at the 50 sampled day care centers. A review of the files revealed that 230 (72%) of the 321 deficiencies remained unresolved at the end of Fiscal Year 2001. Table III, following, shows a breakdown of the 230 unresolved deficiencies identified by the Resource Area Unit staff during their visits:

Table III

Unresolved Deficiencies Found by Resource Area Unit Staff
During Fiscal Year 2001

Deficiencies		
Area Reviewed	Number	Examples
Administration	11	Missing background checks by City Department of Investigation and by New York State; missing Department of Health certification of teachers
Program For Children	12	Program not age appropriate; old books need replacement; insufficient games for children; not enough playing space for children
Classroom Equipment	23	Broken and old furniture needs to be replaced
Facilities	105	Classroom areas tested positive for lead; sanitizer for dishes needs repair; defective heating system; missing security system
Fiscal	7	Delay in payment to employees; payroll taxes submitted late; bills not paid
Health	21	Missing and incomplete children's medical records; insufficient training of staff to handle medical emergencies
Nutrition	2	Serving sugar cereals rather than recommended ones
Parent Involvement	2	Parents not signing in during their visits to center
Utilization	23	Student enrollment is either lower or higher than approved by contract
Federally Funded Food Program	1	Insufficient record-keeping of books
Staff Vacancy	15	Vacancies for the positions of Director; Assist. Director; group teacher; teacher's aide
Others	8	Electrical outlet covers missing; teachers not certified
Total	230	

In addition, the Program Assessment Unit forwarded a list of 78 programmatic deficiencies to the Resource Area Units for follow-up and corrective action. A review of the files found that 19 (24%) of the 78 deficiencies remained uncorrected at the end of Fiscal Year 2001. Table IV, following, shows the unresolved deficiencies forwarded by the Program Assessment Unit.

Table IV

Unresolved Deficiencies Forwarded by Program Assessment Unit
Fiscal Year 2001

Deficiencies		
Areas Identified	Number	Examples
Program for Children	8	Expired Department of Health license to operate day care center; lacking toys and play equipment
Child Abuse & Maltreatment	2	Missing New York State background screening for employees.
Safety	2	Hazardous conditions in playground
Physical Environment	5	Infectious disease log not maintained; peeling paint.
Parent Involvement	1	No Parent Advisory Committee
Sponsoring Board	1	No minutes or schedule of board meetings.
Total	19	

In many instances, the deficiencies remain unresolved even after several visits by the Resource Area Unit staff. In one case, a center was visited five times over an eight-month period, and the same deficiencies—including peeling paint, faulty lighting, and staff vacancies—were cited at each visit. In another example, a center was visited eight times over a ten-month period and cited at each visit for having staff vacancies and under-qualified staff. In yet another example, a center was visited six times in one year and cited at each visit for administrative and staff training issues, including the lack of mandatory training in detecting child abuse and maltreatment. There is no evidence in the files to indicate what steps, if any, the Resource Area Unit took to help the day care centers resolve these deficiencies beyond merely revisiting them and reciting violations. The Unit has outdated and incomplete written procedures on how to do its job. Therefore, when deficiencies are found, the staff may be at a loss as to how to assist the day care centers in resolving the problems.

The Resource Area Units and the Program Assessment Unit both visit and evaluate the same aspects of the day care centers. However, they do not effectively communicate with each other, as exemplified by the fact that the Program Assessment Unit did not forward many evaluations identifying a number of unresolved deficiencies to the Resource Area Units for follow-up purposes. Improved communication could enhance efficiency and minimize duplication of effort. In addition, the units have no central tracking system to readily identify the day care centers with outstanding deficiencies so that the units can provide assistance and ensure compliance.

Recommendations

ACS should:

11. Consider reorganizing the Program Assessment Unit and the Resource Area Units to improve communication and to hold those in charge accountable for all programmatic

matters of day care centers, including performing annual program evaluations, visiting the day care centers, and responding to the centers' program needs.

ACS Response: The Department partially agreed, stating: "The field office consultants and the Program Assessment unit perform separate functions. The Program Assessment unit is a unit independent of Resource Area offices that performs an annual assessment of funded programs. . . . ACS will explore methods to improve communications between the referenced units."

Auditor Comment: ACS did not address how they plan to reorganize these two units. When the major reconfiguration of ACS child care units is underway, ACS should take this recommendation seriously into account.

12. Update and develop clearly written procedures and establish a strong internal control structure to ensure that day care centers and sponsors are properly evaluated, that program deficiencies are identified and resolved, and that day care centers and sponsors receive appropriate assistance in resolving program deficiencies.

ACS Response: The Department partially agreed and stated: "The severe staff reduction has affected ACS' ability to perform all functions as originally planned. ACS is exploring means, such as self-assessment and validation, to make the assessment process, including correction of deficiencies, more efficient and effective."

Auditor Comment: ACS did not address the need for clearly written procedures and the establishment of strong internal control structure. When the major reconfiguration of ACS child care units takes place, ACS must address the internal control structure to ensure that staff of the Program Assessment Unit and the Resource Area Unit will perform all required duties.

13. Develop and implement a centralized automated tracking system that includes all the day care centers and sponsors, complete with defined milestones, to ensure that each day care center and sponsor complies with applicable contract requirements. In addition, this system should record deficiencies that remain unresolved at each day care center so that the monitoring unit can follow up to ensure that outstanding deficiencies are resolved. This system should be accessible to all the ACS units.

ACS Response: The Department agreed, stating: "ACS is in the process of developing a centralized system to track monitoring data."

14. Explore ways to minimize the time staff work on the RFP process.

ACS Response: The Department agreed, stating: "ACS will explore means of making the internal review process more efficient."

**Audit Reports of Day Care Centers
Issued by the New York City Comptroller's Office**

Asociaciones Dominicanas Day Care Center

ME98-230A

April 7, 1999

New Life Child Development Center

FP98-216A

February 29, 2000

Martin de Porres Day Care Center

FP00-136A

November 9, 2000

Faith, Hope & Charity Day Care Center

ME00-069A

February 2, 2001

Inwood Nursery Day Care Center

ME01-125A

June 11, 2001

Shirley Chisholm Day Care Center

FP01-086A

June 22, 2001

Jamaica NAACP Day Care Center

FP01-112A

February 27, 2002

Starlight Day Care Center

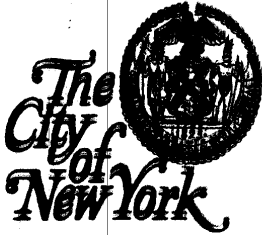
ME01-93A

June 5, 2002

Whitney M. Young Jr. Day Care Center

MD02-187A

February 13, 2003



Administration for Children's Services

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

William C. Bell
Commissioner

May 21, 2002

Mr. Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York Office of the Comptroller
Executive Offices
1 Centre Street, Room 1100
New York, New York 10007-2341

Re: NYC Comptroller's Audit Report ME01-179A
Oversight of Contracted Day Care Centers by ACS

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
Audit on the Oversight of Contracted Day Care Centers by the
New York City Administration for Children's Services
Audit Number ME01-179A

Administration for Children's Services (ACS)

Response to Recommendations

May 21, 2003

It should be noted that the responses are based on the current organizational structure of ACS Child Care. A major reconfiguration of ACS Child Care is now underway and as a result of this reconfiguration, the responses to these recommendations may change.

Recommendations 1, 2, 4, and 5

ACS will include in the Interim Audit Guidelines a specific date for sponsors to submit a letter attesting to the engagement of an independent auditor to perform an annual audit. If a sponsor fails to comply by the due date, the director of the Audit Review and Fiscal Compliance Unit will promptly contact the sponsor.

ACS will strongly recommend, in the Fiscal Year 2003 Audit Guidelines and, thereafter, that sponsors select CPA firms to perform their annual audits that are currently included in the Comptroller's Pre-qualified List. The current CPA Pre-qualified list will be sent to the sponsors along with the Audit Guidelines. Furthermore, it is required that if an ACS Program Audit is appropriate, the CPA selected must currently be included in the Comptroller's Pre-qualified List. However, for those sponsors required to perform an A-133 Single Audit or Program Specific Audit, the Federal OMB Circular A-133 provides directions for sub-recipients to contract for audit services. They must follow the standards prescribed by the Grant Management Common Rule, also called the A-102 Common Rule, and Circular A-110, Uniform Administrative Requirements for Grant Agreement with Non-Profit Organizations. Also refer to NYCC Directive 5 (Revised 11/00) Page Number 16 Section 6.0 "A-133 audits must be performed by certified public accountants (CPA's) external to, and independent of, the entity under audit."

ACS Audit Guidelines clearly state the auditor must audit the private tuition account, if one exists. If none, the auditor is to make a statement to that effect. The Fiscal Year 2003 Guidelines will emphasize this and the audits will be considered incomplete without the required accounting or statement.

ACS will communicate through the sponsors to the CPA firms the requirement to report on private tuition in their audit reports. Furthermore, ACS will stress in the Audit Guidelines that it is mandatory to include private tuition in the audit report.

Recommendation 3

ACS does have penalties for non-compliance with contractual obligations, up to and including contract termination. ACS has sought changes in the contract to allow greater

flexibility in applying penalties for non-compliance. ACS/Child Care will continue to explore with ACS Legal, options for establishing specific penalties for non-compliance.

Recommendations 6, 11, and 12

The divisions, Audit Review & Fiscal Compliance and Technical Assistance, each perform different functions. The monitoring function of each division is specific to the function of the division. The Audit Review unit reviews the annual audit and determines resolution of deficiencies. The Fiscal Support unit trains and works with programs throughout the year in the area of fiscal management, including assistance in developing plans of corrective action for deficiencies. The Fiscal Support unit also monitors the programs' current fiscal performance.

ACS is presently developing an automated database that will serve as a central repository for shared program/fiscal information and status updates. ACS will also explore additional means of improving communication between the two referenced units.

ACS agrees that improved communication would be helpful in better coordinating the monitoring process and is presently developing an automated database that will serve as a central repository for shared program/fiscal information and status updates. ACS will also explore additional means of improving communication between the two referenced units.

The field office consultants and the Program Assessment Unit perform separate functions. The field consultants monitor the programs and work with them on an on-going basis in many areas including child development, health and safety, licensing, board and staff development and program operations. The Program Assessment unit is, by statute, an independent unit that performs an annual assessment of funded programs. The results are required for contract renewal. There is communication between the program assessors and the field office consultants who follow-up on all deficiencies, however, ACS will explore methods to improve communication between the referenced units.

ACS has policies and procedures to assess programs, identify deficiencies and provide assistance to correct deficiencies. ACS is exploring ways, such as self-assessment and verification, to make the assessment process, including correction of deficiencies, more efficient and effective.

Recommendations 7, 8, and 13

ACS has several means of monitoring Child Care program fiscal performance, including: (1) field visits by the Fiscal Support unit and the field office consultant; (2) monthly expense reports; and (3) the annual audit. ACS provides assistance throughout the year and assists programs in resolving audit-identified deficiencies. It also provides regular training sessions in many areas of fiscal performance. ACS will develop a consolidated Procedures Manual for the Fiscal Support Unit and the Audit Services Unit to insure a coordinated approach to evaluating and resolving sponsor fiscal deficiencies.

ACS does have automated systems to record program data, including deficiencies, however, presently it is not fully centralized. ACS is in the process of developing a centralized system to track monitoring data.

Recommendations 9 and 10

ACS mails a list of the fiscal training sessions to each program each year. It also recommends training to specific programs. It sends out confirmation letters to all who register for the training sessions. It also requires certain programs to receive assistance from the Day Care Council, which has a grant to provide such assistance.

ACS will update its program directory and mailing lists to ensure proper notification of training sessions. ACS recommends that certain programs attend specific training sessions and sends out confirmation letters to all who register. ACS will explore additional means of improving attendance, particularly on the part of programs that are deemed to need it the most. It should be noted that during this calendar year, attendance at training sessions has improved significantly.

Recommendation 14

The RFP process and the manner in which it is implemented is required by Procurement Policy Board Rules as administered through the Mayor's Office of Contracts.

ACS will explore means of making the internal review process more efficient.

**ADMINISTRATION FOR CHILDREN'S SERVICES (ACS) AUDIT IMPLEMENTATION PLAN
 NEW YORK CITY COMPTROLLER'S AUDIT ON THE OVERSIGHT OF CONTRACTED DAY CARE CENTERS
 BY THE ADMINISTRATION FOR CHILDREN'S SERVICES
 AUDIT NUMBER: ME01-179A**

RECOMMENDATION # 1: ACS should include in the ACS Interim Audit Guidelines a specific date for sponsors to submit a letter attesting to the engagement of an independent auditor to perform an annual audit. If a sponsor fails to comply by the due date, the director of the Audit Review and Fiscal Compliance Unit should promptly contact the sponsor.

RESPONSIBLE MANAGER'S NAME: Larry Lee Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS will include in the Interim Audit Guidelines a specific date for sponsors to submit a letter attesting to the engagement of an independent auditor to perform an annual audit. If a sponsor fails to comply by the due date, the director of the Audit Review and Fiscal Compliance Unit will promptly contact the sponsor.	Tom Welsh, Director Audit Services	06/03	Ongoing		
	Muhammad Kazi, Assistant Director of Audit Review and Fiscal Compliance	06/03	Ongoing		

**ADMINISTRATION FOR CHILDREN'S SERVICES (ACS) AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT ON THE OVERSIGHT OF CONTRACTED DAY CARE CENTERS
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AUDIT NUMBER: ME01-179A**

RECOMMENDATION # 2: ACS should determine whether the CPA firm selected by the sponsor is from the current Pre-qualified CPA List. If not, the fiscal unit director should send a reminder to the sponsor that only CPA firms on the Pre-qualified List are acceptable. A current copy of the Comptroller's Pre-qualified CPA List should be included in the reminder.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS will strongly recommend, in the Fiscal Year 2003 Audit Guidelines and, thereafter, that sponsors select CPA firms to perform their annual audits that are currently included in the Comptroller's Pre-qualified List. The current CPA Pre-qualified list will be sent to the sponsors along with the Audit Guidelines. Furthermore, it is required that if an ACS Program Audit is appropriate, the CPA selected must currently be included in the Comptroller's Pre-qualified List. However, for those sponsors required to perform an A-133 Single Audit or Program Specific Audit, the Federal OMB Circular A-133 provides directions for sub-recipients to contract for audit services. They must follow the standards prescribed by the Grant Management Common Rule, also called the <u>A-102 Common Rule</u> , and <u>Circular A-110, Uniform Administrative Requirements for Grant Agreement with Non-Profit Organizations</u> .	Tom Welsh, Director Audit Services	Implemented			NYCC Directive 5 (Revised 11/00) Page Number 16 Section 6.0 "A-133 audits must be performed by certified public accountants (CPA's) external to, and independent of, the entity under audit."

**ADMINISTRATION FOR CHILDREN'S SERVICES (ACS) AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT ON THE OVERSIGHT OF CONTRACTED DAY CARE CENTERS
BY THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: ME01-179A**

RECOMMENDATION # 3: ACS should consult the ACS legal department in developing and incorporating specific penalties for sponsors who do not comply with their contract terms.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS does have penalties for non-compliance with contractual obligations, up to and including contract termination. ACS has sought changes in the contract to allow greater flexibility in applying penalties for non-compliance. ACS/Child Care will continue to explore with ACS/Legal, options for establishing specific penalties for non-compliance.	Larry Thomas, Executive Director ACS Child Care Technical Support and Program Compliance Tom Welsh, Director Audit Services	Ongoing	Ongoing	Child Care Services Contract	ACS and the Comptroller's Office, while desirous of compliance, must be mindful that there may be certain instances of non-compliance beyond the control of the program. In applying penalties, we must avoid negatively impacting the program's ability to provide services in a manner that is compliant with the regulations of all oversight authorities.

**ADMINISTRATION FOR CHILDREN'S SERVICES (ACS) AUDIT IMPLEMENTATION PLAN
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 BY THE ADMINISTRATION FOR CHILDREN'S SERVICES
 AUDIT NUMBER: ME01-179A**

RECOMMENDATION # 4: ACS should determine whether each day care center has private tuition students and ensure that this information is accurately reflected in the annual audit reports prepared by the CPA firms

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS Audit Guidelines clearly state the auditor must audit the private tuition account, if one exists. If none, the auditor is to make a statement to that effect. The Fiscal Year 2003 Guidelines will emphasize this and the audits will be considered incomplete without the required accounting or statement.	Tom Welsh, Director Audit Services	05/17/03	Ongoing	ACS Child Care Audit Guidelines	

**ADMINISTRATION FOR CHILDREN'S SERVICES (ACS) AUDIT IMPLEMENTATION PLAN
 NEW YORK CITY COMPTROLLER'S AUDIT ON THE OVERSIGHT OF CONTRACTED DAY CARE CENTERS
 BY THE ADMINISTRATION FOR CHILDREN'S SERVICES
 AUDIT NUMBER: ME01-179A**

RECOMMENDATION # 5: ACS should send reminders to the selected CPA firms concerning the requirement to report on private tuition in their audit reports.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS will communicate through the sponsors to the CPA firms the requirement to report on private tuition in their audit reports. Furthermore, ACS will stress in the Audit Guidelines that it is mandatory to include private tuition in the audit report.	Tom Welsh, Director Audit Services	06/03	Ongoing		

**ADMINISTRATION FOR CHILDREN'S SERVICES (ACS) AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT ON THE OVERSIGHT OF CONTRACTED DAY CARE CENTERS
BY THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: ME01-179A**

RECOMMENDATION # 6: ACS should consider reorganizing the Audit Review and Fiscal Compliance Unit and the Technical Assistance Unit to improve communications, avoid duplication of effort, and hold those in charge accountable for all fiscal matters, including reviewing the audit reports, visiting the day care centers, and providing fiscal training to both sponsors and employees of the day care centers.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
<p>The divisions each perform different functions. The monitoring function of each division is specific to the function of the division. The Audit Review unit reviews the annual audit and determines resolution of deficiencies. The Fiscal Support unit trains and works with programs throughout the year in the area of fiscal management, including assistance in developing plans of corrective action for deficiencies. The Fiscal Support unit also monitors the programs' current fiscal performance.</p> <p>ACS is presently developing an automated database that will serve as a central repository for shared program/fiscal information and status updates. ACS will also explore additional means of improving communication between the two referenced units.</p>	<p>Larry Thomas, Executive Director ACS Child Care Technical Support and Program Compliance</p> <p>Tom Welsh, Director Audit Services</p>	Ongoing	Ongoing	<p>Program Policies and Procedures</p>	<p>ACS agrees that improved communication would be helpful in better coordinating the monitoring process.</p> <p>This response is based on the current organizational structure. A major reconfiguration of ACS Child Care is now underway. As a result, the response to this recommendation may change.</p>

**ADMINISTRATION FOR CHILDREN'S SERVICES (ACS) AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT ON THE OVERSIGHT OF CONTRACTED DAY CARE CENTERS
BY THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: ME01-179A**

RECOMMENDATION # 7: ACS should update and develop clearly written procedures and establish a strong internal control structure to ensure that day care centers and sponsors are properly evaluated, that fiscal deficiencies are identified and resolved, and that day care centers and sponsors receive appropriate assistance in resolving fiscal deficiencies.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS has several means of monitoring Child Care program fiscal performance, including: (1) field visits by the Fiscal Support unit and the field office consultant; (2) monthly expense reports; and (3) the annual audit. ACS provides assistance throughout the year and assists programs in resolving audit-identified deficiencies. It also provides regular training sessions in many areas of fiscal performance. ACS will develop a consolidated Procedures Manual for the Fiscal Support Unit and the Audit Services Unit to insure a coordinated approach to evaluating and resolving sponsor fiscal deficiencies.	Larry Thomas, Executive Director ACS Child Care Technical Support and Program Compliance	Ongoing	Ongoing	Child Care Contract Program Policies and Procedures	

**ADMINISTRATION FOR CHILDREN'S SERVICES (ACS) AUDIT IMPLEMENTATION PLAN
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BY THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: ME01-179A**

RECOMMENDATION # 8: ACS should develop and implement a centralized automated tracking system that includes all the day care centers and sponsors, complete with defined milestones, to ensure that each day care center and sponsor complies with applicable contract requirements. In addition, this system should record deficiencies that remain unresolved at each day care center so that the monitoring unit can follow up to ensure that outstanding deficiencies are resolved. This system should be accessible to all the units.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES START END	DOCUMENTATION	COMMENTS
ACS does have automated systems to record program data, including deficiencies, however, presently it is not fully centralized. ACS is in the process of developing a centralized system to track monitoring data.	Larry Thomas, Executive Director ACS Child Care Technical Support and Program Compliance Jeff Golden, ACS Child Care/ Management Information Services	06/03 12/03	Systems documentation, reports	

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RECOMMENDATION # 9: ACS should maintain an updated ACS mailing list of current sponsors, directors, and day care centers to ensure that current employees receive letters notifying them of upcoming training seminars.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS mails a list of the fiscal training sessions to each program each year. It also recommends training to specific programs. It sends out confirmation letters to all who register for the training sessions. It also requires certain programs to receive assistance from the Day Care Council, which has a grant to provide such assistance. ACS will update its program directory and mailing lists to ensure proper notification of training sessions.	Larry Thomas, Executive Director ACS Child Care Technical Support and Program Compliance Bernard Gold ACS Child Care/Fiscal Support Jeff Golden, ACS Child Care/ Management Information Services	Ongoing	Ongoing	Program directory, copies of letters	

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RECOMMENDATION # 10: ACS should include both telephone calls and confirmation letters in its outreach efforts to ensure that staffs of problematic day care centers attend the training sessions.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
<p>ACS recommends that certain programs attend specific training sessions and sends out confirmation letters to all who register.</p> <p>ACS will explore additional means of improving attendance, particularly on the part of programs that are deemed to need it the most.</p>	<p>Bernard Gold, ACS Child Care/ Fiscal Support</p> <p>Larry Thomas, Executive Director ACS Child Care Technical Support and Program Compliance</p>	Ongoing	Ongoing	Letters	During the present calendar year, attendance at training sessions has improved significantly.

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RECOMMENDATION # 11: ACS should consider reorganizing the Program Assessment Unit and the Resource Area Units to improve communication and to hold those in charge accountable for all programmatic matters by day care centers, including performing annual program evaluations, visiting the day care centers, and responding to the centers' program needs.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
<p>The field office consultants and the Program Assessment Unit perform separate functions. The field consultants monitor the programs and work with them on an on-going basis in many areas including child development, health and safety, licensing, board and staff development and program operations. The Program Assessment unit is, by statute, an independent unit that performs an annual assessment of funded programs. The results are required for contract renewal. There is communication between the program assessors and the field office consultants who follow-up on all deficiencies.</p> <p>ACS will explore methods to improve communication between the referenced units.</p>	<p>Larry Thomas, Executive Director ACS Child Care Technical Support and Program Compliance</p> <p>Rosemary Kennedy, Interim Executive Director Sponsor Program Operations</p> <p>Sylvia Ireland, Program Director, Program Assessment</p>	Ongoing	Ongoing	Program	<p>This response is based on the current organizational structure. A major reconfiguration of ACS/Child Care is now underway. As a result, the response to this recommendation may change.</p>

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RECOMMENDATION # 12: ACS should update and develop clearly written procedures and establish a strong internal control structure to ensure that day care centers and sponsors are properly evaluated, that program deficiencies are identified and resolved, and that day care centers and sponsors receive appropriate assistance in resolving program deficiencies.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS has policies and procedures to assess programs, identify deficiencies and provide assistance to correct deficiencies. ACS is exploring means, such as self-assessment and verification, to make the assessment process, including correction of deficiencies, more efficient and effective.	Larry Thomas, Executive Director ACS Child Care Technical Support and Program Compliance Sylvia Ireland, Director, Program Assessment	01/03	Ongoing	Program Assessment Policies and Procedures	The severe staff reduction has affected ACS' ability to perform all functions as originally planned. This response is based on the current organizational structure. A major reconfiguration of ACS/Child Care is now underway. As a result, the response to this recommendation may change.

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RECOMMENDATION # 13: ACS should develop and implement a centralized automated tracking system that includes all the day care centers and sponsors, complete with defined milestones, to ensure that each day care center and sponsor complies with applicable contract requirements. In addition, this system should record deficiencies that remain unresolved at each day care center so that monitoring unit can follow up to ensure that outstanding deficiencies are resolved. This system should be accessible to all the ACS units.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS does have automated systems to record program data, including deficiencies, however, it is not fully centralized. ACS is in the process of developing a centralized system to track monitoring data.	Larry Thomas, Executive Director ACS Child Care Technical Support and Program Compliance	01/03	09/03	System documentation	

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RECOMMENDATION # 14: ACS should explore ways to minimize the time staff work on the RFP process.

RESPONSIBLE MANAGER'S NAME: Larry Lee, Associate Commissioner ACS/ACD

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES START	DATES END	DOCUMENTATION	COMMENTS
The RFP process and the manner in which it is implemented is required by Procurement Policy Board Rules as administered through the Mayor's Office of Contracts. ACS will explore means of making the internal review process more efficient.	Larry Lee, Associate Commissioner, ACS Child Care and Head Start	Ongoing	Ongoing	PPB Rules	