

# AUDIT REPORT



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

## **Audit Report on the Compliance of Neighborhood Youth and Family Services with Its City Contracts**

*FM02-176A*

**June 30, 2003**



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

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WILLIAM C. THOMPSON, JR.  
COMPTROLLER

## To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the responsibilities of the Comptroller contained in Chapter 5, § 93, of the New York City Charter, my office conducted an audit of the compliance of Neighborhood Youth and Family Services with its City contracts that were awarded by the Administration for Children Services and the Department of Youth and Community Development. The results of our audit, which are presented in this report, have been discussed with officials of Neighborhood Youth and Family Services, the Administration for Children Services, and the Department of Youth and Community Development.

Audits such as this provide a means of ensuring that private concerns that conduct business with the City comply with the terms of their agreements, proper reporting expenditures, and receive appropriate payments from the City.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please contact my audit bureau at 212-669-3747 or e-mail us at [audit@Comptroller.nyc.gov](mailto:audit@Comptroller.nyc.gov).

Very truly yours,

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

William C. Thompson, Jr.

**Report:** FM02-176A  
**Filed:** June 30, 2003

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

**Audit Report on the Compliance of  
Neighborhood Youth and Family Services  
With Its City Contracts**

**FM02-176A**

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**AUDIT REPORT IN BRIEF**

The Comptroller's Office performed an audit of Neighborhood Youth and Family Services' (NYFS) compliance with contracts awarded by the New York City Administration for Children's Services (ACS) and the Department of Youth and Community Development (DYCD). Under the terms of the agreements, NYFS provides various social services including counseling, drug treatment, housing assistance, and legal services. During Fiscal Year 2001, NYFS was awarded six City contracts totaling nearly \$4 million.

**Audit Findings and Conclusions**

NYFS did not maintain adequate controls over the recording and reporting of program expenses, did not maintain sufficient documentation to support expenses charged to its contracts, and did not maintain records to support payroll advances. Consequently, we could not be reasonably assured that expenses charged to the City contracts were legitimate, appropriate, and in accordance with the terms of the agreements.

In addition, based on claims submitted, the City reimbursed NYFS a total of \$411,345 for: expenses not consistent with its approved budget; unallowable administrative expenses; services provided to other programs; and expenses that were previously reimbursed or were not supported by its accounting records.

**Audit Recommendations**

To address these issues we recommend that NYFS should:

- Ensure that complete documentation is maintained to support expenses;
- Ensure that all purchases are approved in accordance with its internal fiscal policies and procedures;

- Maintain records of payroll advances and ensure that all amounts due are paid;
- Ensure that all expenses charged to these City contracts are in accordance with the approved budgets; and
- Repay the City \$411,345

In addition, we recommend that:

- ACS should recoup \$400,777 from NYFS;
- ACS should ensure that NYFS implements the report's recommendations to address the internal control weaknesses noted in this report; and
- DYCD should recoup \$10,568 from NYFS.

## **INTRODUCTION**

### **Background**

Neighborhood Youth and Family Services (NYFS), is a Bronx community-based not-for-profit organization that provides various social services including counseling, drug treatment, housing assistance, and legal services.

For Fiscal Year 2001 (July 1, 2000, to June 30, 2001) the New York City Administration for Children's Services (ACS) awarded NYFS three contracts totaling approximately \$3.9 million for the following programs.

- *General Preventive Program*: to provide various services including housing, shelter, and parental training to community residents.
- *Family Rehabilitation Program*: to provide mental health counseling and drug treatment programs to parents with children under the age of six.
- *Persons in Need of Supervision*: to evaluate troubled children to determine what services should be provided to them as well as their families.

In addition, for Fiscal Year 2001 the Department of Youth and Community Development (DYCD) awarded three after-school program contracts totaling \$117,669 to NYFS for drug awareness and prevention, homework assistance and tutoring, youth leadership, recreation and sports activities, and art and cultural activities.

### **Objectives**

The audit's objectives were to determine whether NYFS maintained adequate internal controls over the recording and reporting of its expenses and was reimbursed in accordance with the terms of its contracts.

## **Scope and Methodology**

This audit covered Fiscal Year 2001. We met with officials of ACS and DYCD to gain an understanding of NYFS programs and the process for reimbursing NYFS for expenses incurred. We reviewed all six NYFS contracts, the related budgets, and the reimbursement requests submitted by NYFS to ACS and DYCD. We reconciled monthly reimbursement forms submitted by NYFS to the City Financial Management System. We also determined whether the amounts paid to NYFS correlated with the approved budgets in its contracts.

We evaluated NYFS's internal controls over the recording and reporting of program expenses and reimbursements. In that regard, we interviewed NYFS personnel, conducted a walk-through of the operations, and documented our understanding of the internal controls through written narratives. We evaluated the effectiveness of NYFS internal controls to determine the type and extent of testing needed to determine whether program funds were properly spent and accurately recorded in accordance with the terms of the contracts.

Our initial testing of program expenses covered June 2001. To determine whether expenses were charged to only one program, we reconciled invoice amounts to the amounts recorded on the NYFS general ledger and on reimbursement claim forms submitted to ACS and DYCD. We also examined purchase requisitions, purchase orders, canceled checks, and bidding documentation to determine whether expenses were adequately documented and properly authorized.

Based on our assessment of controls and the results of the initial testing of reported expenses, we decided to perform tests on 100 percent of the reported expenses for Fiscal Year 2001 for all six City contracts, as discussed below.

For Other than Personal Service (OTPS) expenses, we traced the amounts on the reimbursement claim forms to the general ledger, payment vouchers, and supporting documentation, including purchase requisitions and vendor invoices. We determined whether appropriate authorizations were obtained and whether the expenses charged to the contracts were in accordance with the approved budgets.

With regard to Personal Service (PS) expenses, we determined whether the amounts charged to the City contracts were consistent with the salaries recorded in the payroll register. We determined whether the titles and salaries of employees charged to the City contracts were in accordance with the approved budgets. In addition, we reviewed NYFS books and records to determine whether all year-end adjusting journal entries for payroll expenses were appropriate.

Finally, we traced reported program expenses to the NYFS 2001 Financial Statements and Federal Income Tax Return (Form 990).

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included test of 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.

## **Discussion of Audit Results**

The matters covered in this report were discussed with NYFS, ACS, and DYCD officials during and at the conclusion of this audit. A preliminary draft report was sent to NYFS, ACS, and DYCD officials and was discussed at an exit conference on June 12, 2003. Also, on June 13, 2003, we submitted a draft report to these officials with a request for comments. We received a response from NYFS on June 25, 2003, and from ACS and DYCD on June 26, 2003.

NYFS generally agreed with the audit's findings and recommendations, and is requesting that ACS consider a budget modification to correct the errors found in the audit. Both ACS and DYCD agreed with the report's findings and stated they will implement the recommendations.

The full text of the responses from NYFS, ACS, and DYCD are included as addenda to this report.

## **FINDINGS AND RECOMMENDATIONS**

NYFS did not maintain adequate controls over the recording and reporting of program expenses and did not maintain sufficient documentation to support expenses charged to its contracts. In addition, based on claims submitted, the City reimbursed NYFS a total of \$411,345 for: expenses not consistent with its approved budget; unallowable administrative expenses; services provided to other programs; and expenses that were previously reimbursed or were not supported by its accounting records. (See Appendix I for the breakdown of amounts improperly reimbursed to NYFS.)

### **Internal Control Weaknesses**

We found that NYFS did not have adequate internal controls over the recording and reporting of expenses, and it did not maintain adequate documentation to support expenses. Consequently, we are not reasonably assured that expenses charged to NYFS's City contracts were legitimate, appropriate, and in accordance with the terms of the agreements. Specifically, NYFS did not:

- ensure that expenses charged to City contracts were in accordance with the approved budgets.
- maintain adequate documentation to support 744 of the 1,518 OTPS expenses charged to its City contracts during Fiscal Year 2001. These 744 expenses amounted to \$295,957.
- ensure that all purchases were approved in accordance with its internal fiscal policies and procedures. Specifically, 97 of the 1,518 transactions reviewed were not properly approved.
- maintain records of payroll advances. Consequently, we cannot be assured that all such advances were repaid.
- ensure that invoices were marked paid to prevent duplicate payments.

### **Recommendations**

NYFS should:

1. Ensure that complete documentation is maintained to support expenses.
2. Ensure that all purchases are approved in accordance with its internal fiscal policies and procedures.
3. Maintain records of payroll advances and ensure that all amounts due are paid.



**NYFS Response:** “NYFS has instituted fiscal policies and procedures to ensure that all transactions are being properly reviewed and approved. NYFS has instituted procedures to make sure that all payroll advances are being accounted for, and subsequently being repaid.”

### **NYFS Received \$411,345 in Improper Reimbursements**

Our analysis revealed that NYFS was reimbursed a total of \$411,345 in various improper reimbursements from the City—\$400,777 from ACS and \$10,568 from DYCD. (See Appendix I for the breakdown of amounts.)

Specifically, NYFS received \$218,826 for expenses that were not included in the approved budgets of its contracts with ACS and DYCD. For example, NYFS was reimbursed by ACS \$65,512 for salaries of teacher aides, but the approved budget only allowed \$35,000. As another example, NYFS was reimbursed \$18,798 for an attorney, a position that was not included in the approved budget. ACS believes that these programs should be staffed in a specific way to ensure that all contracted services were provided. Any change to the budget must be approved by the contracting City agency, since unapproved budget modifications could affect the services provided to NYFS clients. These improper reimbursements went unnoticed because NYFS is required to report only the total amount of expenses by budget category.

In addition, NYFS was reimbursed for administrative expenses in excess of the allowable amounts. Specifically, each contract allows reimbursement for only a certain percentage of program expenses that are attributable to administrative costs. NYFS was reimbursed \$129,512 in excess of the amount allowed for administrative costs because it inappropriately charged these expenses to other budget categories.

Finally, NYFS was reimbursed \$45,124 from these contracts for expenses that should have been charged to other contracts. It also received \$7,193 in duplicate reimbursements and \$10,690 for expenses that were not recorded on its books and records.

We discussed these issues with ACS officials who agreed that these expenses should not have been charged to the NYFS contracts. In addition, ACS officials stated that appropriate action would be taken to recoup these funds.

### **Recommendations**

NYFS should:

4. Ensure that all expenses charged to these City contracts are in accordance with the approved budgets.
5. Repay the City \$411,345.

**NYFS Response:** “NYFS is requesting that ACS approve a FY01 Budget Modification to correct the areas of question by the above audit since the Final Close-out is not yet completed.”

ACS should:

6. Recoup \$400,777 from NYFS.

**ACS Response:** “ACS will advise Neighborhood Youth and Family Services (NYFS), in writing, of the repayment plan and recoup the \$400,777 due.”

7. Ensure that NYFS implements the report’s recommendations to address the internal control weaknesses noted in this report.

**ACS Response:** “ACS has advised NYFS, in writing, that they must implement the report’s recommendations to address the internal weaknesses noted in the audit report.”

DYCD should:

8. Recoup \$10,568 from NYFS.

**DYCD Response:** “As you are already aware, we notified . . . Neighborhood Youth & Family Services they must reimburse DYCD \$10,568 that was questioned for improper reimbursement.”

**Schedule of Inappropriate Reimbursements  
For the Fiscal Year Ended June 30, 2001**

Agency	Contract	Not Consistent with Budget		Invalid Administrative Cost		Other Program Expenditures		Duplicates		Not Supported		Total
		PS	OTPS	PS	OTPS	PS	OTPS	PS	OTPS	PS	OTPS	
ACS	<i>General Preventive Services</i>	93,292	-	83,698	-	26,081	-	1,242	-	-	-	204,313
	<i>Family Rehabilitation Program</i>	76,921	-	-	923	-	-	112	-	-	-	77,956
	<i>PINS/DAS</i>	47,182	-	44,891	-	15,745	-	-	-	-	10,690	118,508
	<i>Sub-total</i>											400,777
DYCD	<i>Youth Service, Delinquency Prevention &amp; Intervention</i>	(248)	-	-	-	-	-	2,004	-	-	-	1,756
	<i>Educational Support &amp; Youth Leadership</i>	1,679	-	-	-	-	-	882	-	-	-	2,561
	<i>Educational, Recreational, &amp; Cultural Enrichment</i>	-	-	-	-	-	3,298	2,953	-	-	-	6,251
	<i>Sub-total</i>											10,568
<b>Total</b>		<b>218,826</b>	<b>-</b>	<b>128,589</b>	<b>923</b>	<b>41,826</b>	<b>3,298</b>	<b>7,193</b>	<b>-</b>	<b>-</b>	<b>10,690</b>	<b>411,345</b>



NEIGHBORHOOD YOUTH & FAMILY SERVICES  
*Administrative Offices*

Keeping Families Together

DEMAREE BARNES  
*Chairman*

LIZETTE H. TAIT  
*Executive Director*

RON GREEN  
*Associate Executive Director*

NANCY MAMIS-KING  
*Associate Executive Director*

JOSEPH CHATRNUCH  
*Controller*

June 23, 2003

Mr. Greg Brooks  
Deputy Controller  
The City of New York  
Office of the Comptroller  
Bureau Audit  
1 Centre Street – Room 1300 North  
New York, NY 10007-2341

Reference: Audit: FM 02 – 176 A

Dear Mr. Brooks:

In response to June 13<sup>th</sup>, 2003 Audit Draft concerning the internal control weaknesses noted for the period in question, NYFS has ensured that adequate internal control procedures for the recording and reporting of expenses, is being consistent with NYFS's City contracts. This will be legitimate, appropriate and in accordance with the terms of the City's contracts.

NYFS has instituted fiscal policies and procedures to ensure that all transactions are being properly reviewed and approved. NYFS has instituted procedures to make sure that all payroll advances are being accounted for, and subsequently being repaid.

In addition, NYFS has instituted procedures that all invoices are being stamped and indicated as being paid to avoid duplicate payments.

NYFS maintains that ACS reimbursement was within the budgeted contract amounts and that a budget modification will justify that reimbursement was within the appropriate levels expensed to the budgeted categories. NYFS is requesting that ACS approve a FY01 Budget Modification to correct the areas of question by the above audit, since the Final Close-out is not yet completed

If there are any questions regarding this information, please contact me, at (718) 299-2340 xt603. Thank you in advance for processing this request.

Sincerely,

Lizette Tait  
Executive Director





*Administration for Children's Services*

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

William C. Bell  
*Commissioner*

June 26, 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, NY 10007-2341

Re: NYC Comptroller's Audit Report FM02-176A on the Compliance of  
Neighborhood Youth and Family Services With Its City Contracts  
July 1, 2000 - June 30, 2001

Dear Mr. Brooks:

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

Attached is our response to your recommendation Numbers 6 and 7 and the appropriate Audit Implementation Plans. We would like to thank the Comptroller's Office for the professionalism of your staff while conducting this audit.

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

Sincerely,

A handwritten signature in black ink that reads "William C. Bell".

William C. Bell

Attachments

City of New York Office of the Comptroller  
New York City Administration for Children's Services  
Neighborhood Youth and Family Services  
Audit Number FM02-176A

**Administration for Children's Services**

**Response to Recommendations**

June 26, 2003

**Recommendation 6**

ACS will advise Neighborhood Youth and Family Services (NYFS), in writing, of the repayment plan and recoup the \$400,777 due.

**Recommendation 7**

ACS has advised NYFS, in writing, that they must implement the report's recommendations to address the internal weaknesses noted in the audit report.

**AUDIT IMPLEMENTATION PLAN**  
**NEW YORK CITY COMPTROLLER'S AUDIT NUMBER FM02-176A**  
**AUDIT REPORT ON THE COMPLIANCE OF NEIGHBORHOOD YOUTH AND FAMILY SERVICES WITH ITS CITY CONTRACTS**  
**JULY 1, 2000 - JUNE 30, 2001**  
**AUDIT REPORT DATE: JUNE 13, 2003**

RECOMMENDATION #6: ACS should recoup from NYFS \$400,777.

RESPONSIBLE MANAGER'S NAME: Susan Nuccio, Acting Deputy Commissioner

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS will advise NYFS, in writing of the repayment plan and recoup the \$400,777 due.	Tom Welsh, Director Audit Services	06/24/03	06/30/04	Copy of the letter to NYFS.	

**AUDIT IMPLEMENTATION PLAN**  
**NEW YORK CITY COMPTROLLER'S AUDIT NUMBER FM02-176A**  
**AUDIT REPORT ON THE COMPLIANCE OF NEIGHBORHOOD YOUTH AND FAMILY SERVICES WITH ITS CITY CONTRACTS**  
**JULY 1, 2000 – JUNE 30, 2001**  
**AUDIT REPORT DATE: JUNE 13, 2003**

**RECOMMENDATION #7:** ACS should ensure that NYFS implements the report's recommendations to address the internal control weaknesses noted in this report.

**RESPONSIBLE MANAGER'S NAME:** Susan Nuccio, Acting Deputy Commissioner

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS advised NYFS, in writing that they must implement the report's recommendations to address the internal weaknesses noted in this report.	Tom Welsh, Director Audit Services	Immediately	Ongoing	Copy of the letter to NYFS advising them to implement the report's recommendations. Review of the annual audit and additional schedules.	



**DEPARTMENT OF YOUTH AND COMMUNITY DEVELOPMENT**

156 William Street  
New York, NY 10039  
(212) 442-5900 FAX (212) 442-5998  
TTY (212) 442-5903

**JEANNE B. MULLGRAV**  
Commissioner

June 26, 2003

Robert Balducci  
NYC Comptroller's Office  
1 Centre Street  
New York, New York 10007

Re: Audit Report Response on Neighborhood Youth & Family Services

Dear Mr. Balducci:

This is in response to the audit conducted by your office on the above referenced organization. As you are already aware, we notified [REDACTED], Executive Director of Neighborhood Youth & Family Services they must reimburse DYCD \$10,568 that was questioned for improper reimbursements.

Please be advised that DYCD will strengthen our monitoring and review of our funded providers. If you have any questions feel free to call me at (212) 442-5358 or Joseph A. Kovac at (212) 676-8195.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Jerry Schiffman", followed by a horizontal line.

Jerry Schiffman  
Assistant Commissioner Contract Agency Finance Division

C: Joseph A. Kovac