

AUDIT REPORT



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

Audit Report on the Highbridge Advisory Council's Compliance With Certain Financial Provisions Of Its Contract with the Administration For Children's Services

ME04-073A

December 16, 2004



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 Highbridge Advisory Council's compliance with certain financial provisions of its contract with the Administration for Children's Services (ACS).

The results of our audit, which are presented in this report, have been discussed with ACS officials, and their comments have been 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.

WCT/fh

Report: ME04-073A
Filed: December 16, 2004

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

**Audit Report on the Highbridge Advisory Council's
Compliance with Certain Financial Provisions of Its Contract
With the Administration for Children's Services**

ME04-073A

AUDIT REPORT IN BRIEF

This audit determined whether the New York City Administration for Children's Services (ACS) ensured that the revenues and expenditures of the Highbridge Advisory Council Family Services, Inc. (Highbridge) were properly reported and whether Highbridge's private tuition fees were calculated, reported, and used in compliance with ACS guidelines. Highbridge is a non-profit community service organization that provides educational and child-care services to infants and children in eight child-care centers and 73 family child-care homes (small facilities located in private residences) in the Bronx. In addition to the funds it receives for child-care services from ACS, Highbridge also receives funding from other sources for its Special Education, Universal Pre-Kindergarten, and Head Start programs.

During Fiscal Year 2003 (July 1, 2002, to June 30, 2003), Highbridge was under contract with ACS to provide child-care services for 1,091 children in its child-care centers and for 222 children in family child-care homes. To provide those services, ACS budgeted \$8,227,608 for Highbridge. In addition, Highbridge received \$1,021,569 from the New York State Department of Health (NYSDOH) Child and Adult Care Food Program (CACFP) to operate the nutrition programs at the child-care centers and family child-care homes.

Audit Findings and Conclusions

ACS did not adequately ensure that Highbridge's revenues and expenditures were properly reported or that Highbridge's private tuition fees were reported and used in compliance with ACS guidelines. ACS has neither made decisions on Highbridge's cost-allocation plan and administrative salary pool nor ensured that Highbridge's independent auditors have complied with ACS audit guidelines concerning the schedules and information that must be included in the annual audit reports. Further, although Highbridge properly calculated the private tuition fees it charged parents, Highbridge generally did not use private tuition fees to enhance its child-care programs as required and transferred most of its private tuition funds to other accounts. These weaknesses prevent ACS from determining the appropriate level of financial support for Highbridge and increase the risk that funds may be misappropriated.

Due to a variety of management control concerns relating to a deficit of about \$2.6 million as of June 30, 2002, the previous executive director of Highbridge was terminated by the Highbridge board in November 2002. In addition, several members of the Highbridge board were replaced. While there is evidence of a renewed commitment to management controls at Highbridge and of an increased ACS involvement in monitoring the financial operations of this sponsor, ACS has not resolved key cost allocation and reporting issues that would help ensure the presence of sound financial practices at Highbridge.

Audit Recommendations

To address these issues, the audit makes seven recommendations, among them that ACS:

- Expedite its review of Highbridge's cost-allocation methodology.
- Establish a cost-allocation methodology for sponsors of multiple centers with multiple programs and funding streams.
- Expedite its review of Highbridge's administrative salary pool.
- Issue guidance on the use of administrative salary pools.
- Ensure that the annual audit reports for Highbridge contain all the required schedules, including information relating to CACFP salary contributions and the receipt and use of private tuition fees.

ACS Response

On November 8, 2004, we submitted a draft report to ACS officials with a request for comments. We received a written response from ACS officials on November 23, 2004. In their response, ACS officials generally agreed with the audit's findings and recommendations.

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

INTRODUCTION

Background

The Highbridge Advisory Council Family Services, Inc. is a non-profit community service organization that provides educational and child-care services to infants and children in eight child-care centers and 73 family child-care homes in the Bronx. Founded in November 1969 with one center, Highbridge experienced rapid growth between June 1993 and September 1996, sponsoring six additional centers. Highbridge added an eighth center in July 2001. Highbridge operates with a central office administrative staff, as well as with center-based classroom and support personnel. In addition to the funds it receives for child-care services from the Administration for Children's Services, Highbridge also receives funding from other sources for its Special Education, Universal Pre-Kindergarten, and Head Start programs.

During Fiscal Year 2003 (July 1, 2002, to June 30, 2003), Highbridge was under contract with ACS to provide child-care services for 1,091 children in its child-care centers and for 222 children in family child-care homes. To provide those services, ACS budgeted \$8,227,608 for Highbridge. In addition, Highbridge received \$1,021,569 from the New York State Department of Health Child and Adult Care Food Program to operate the nutrition programs at the child-care centers and family child-care homes.

Objectives

The objectives of this audit were to determine whether ACS ensured that Highbridge's revenues and expenditures were properly reported and whether Highbridge's private tuition fees were calculated, reported, and used in compliance with ACS guidelines.

Scope and Methodology

This audit covered the period from July 1, 2002 to June 30, 2003 (Fiscal Year 2003).

To understand Highbridge's responsibilities, we interviewed ACS officials and reviewed ACS's administrative advisories for child-care programs and its contract with Highbridge. To understand Highbridge's operations, we interviewed Highbridge officials, conducted walk-throughs, and reviewed its financial statements and related records.

To determine whether Highbridge properly allocated its costs among its child-care programs, we reviewed its cost-allocation plan, its administrative salaries, and its 23 bank accounts.

To determine whether Highbridge was properly reporting to ACS the CACFP funds it received for salaries, we reviewed the ACS and CACFP budgets for Highbridge, Highbridge's reports to ACS, and Highbridge's actual service and administrative staffing levels for this program.

To determine whether Highbridge properly calculated, reported, and used the private

tuition fees it collected, we reviewed its fee schedule, cash receipts, attendance records, bank statements, and general ledger. We also reviewed its uses of private tuition fees to determine whether they were in compliance with the guidelines set forth in the ACS *Administrative Advisory for Private Tuition Payments in Publicly-funded Child Care Programs*.

We also reviewed the last five years of annual audit reports prepared by Highbridge's independent auditor to determine whether the reports contained the schedules and information required by the ACS audit guidelines.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the Comptroller, 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 October 8, 2004, and was discussed at an exit conference held on October 28, 2004. On November 8, 2004, we submitted a draft report to ACS officials with a request for comments. We received a written response from ACS officials on November 23, 2004. In their response, ACS officials generally agreed with the audit's findings and recommendations.

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

FINDINGS AND RECOMMENDATIONS

ACS did not adequately ensure that Highbridge's revenues and expenditures were properly reported or that Highbridge's private tuition fees were reported and used in compliance with ACS guidelines. ACS has neither made decisions on Highbridge's cost-allocation plan and administrative salary pool nor ensured that Highbridge's independent auditors have complied with ACS audit guidelines concerning the schedules and information that must be included in the annual audit reports. Further, although Highbridge properly calculated the private tuition fees it charged parents, Highbridge generally did not use private tuition fees to enhance its child-care programs as required and transferred most of its private tuition funds to other accounts. While Highbridge maintains separate bank accounts for its different programs, it regularly transfers funds from these accounts to pay current expenses without regard for the intended use of the funds. These weaknesses prevent ACS from determining the appropriate level of financial support for Highbridge and increase the risk that funds may be misappropriated.

There have been considerable changes at Highbridge over the last 10 years. Between 1993 and 2001, Highbridge expanded from sponsoring one day care center to sponsoring eight. Highbridge assumed responsibility for the additional centers at the request of ACS. Due to a variety of management control concerns relating to a deficit of about \$2.6 million as of June 30, 2002, the previous executive director of Highbridge was terminated by the Highbridge board in November 2002. In addition, several members of the Highbridge board were replaced. While there is evidence of a renewed commitment to management controls at Highbridge and of an increased ACS involvement in monitoring the financial operations of this sponsor, ACS has not resolved key cost allocation and reporting issues that would help ensure the presence of sound financial practices at Highbridge.

ACS Has Not Made a Decision On Highbridge's Proposed Cost-Allocation Plan

ACS has not made a decision on Highbridge's proposed cost-allocation plan. A cost-allocation plan is needed for Highbridge to comply with ACS's *Administrative Advisory for Allocating Costs in a Publicly-funded Child Care Program* and with Section 5.3 of its contract with ACS. The plan must fairly allocate expenses among the different programs that Highbridge administers. Those programs include the ACS-funded child-care program as well as the Special Education, Universal Pre-Kindergarten, and Head Start programs that are funded by other government agencies. While ACS has reviewed the cost-allocation plan proposed by Highbridge and has met with Highbridge officials on it, ACS has still not approved a cost-allocation plan for Highbridge. As a result, ACS, as of October 28, 2004, had still not closed the Fiscal Year 2003 books for Highbridge.

Highbridge's proposed cost-allocation plan uses a ratio-value method¹ for its central office staff and a units-of-service method² for certain center-based personnel. However, for teachers, assistant teachers, teacher aides, group leaders, and assistant group leaders, programs are directly charged for the actual hours worked. Occupancy costs are allocated either by using the ratio-value method or by considering the number of classrooms used by each program. Other-than-personal-services costs are charged directly to each program or are allocated based on the units-of-service or ratio-value method.

ACS officials are concerned that Highbridge's cost-allocation plan does not adequately track salaries or offer a clear audit trail. They state that Highbridge's allocation method also does not consider relevant City regulations and guidelines (e.g., the Comptroller's Directives). ACS officials also state that Highbridge should consider using a time-allocation method for assigning program costs to administrative staff. Such an allocation would reflect either the actual hours worked or a percentage of the total hours worked that should be charged to ACS.

ACS and Highbridge are meeting regularly to resolve these issues. ACS and Highbridge acknowledge that they are working on a budget prototype for sponsors of multiple child-care centers with multiple programs and funding streams. However, it is incumbent on ACS to resolve this matter in a timely manner.

Because the cost-allocation issues remain unresolved, ACS cannot accurately assess Highbridge's financial needs relative to the child-care services it provides. ACS must resolve the cost-allocation issue to close the books on Fiscal Year 2003 and to determine the appropriate level of financial support that it should be providing to Highbridge.

On a related matter, ACS has not made a decision on the appropriateness of Highbridge's administrative salary pool. Highbridge uses an administrative salary pool to fund salaries for its central administrative unit. This unit was established in 1996 when Highbridge began sponsoring its seventh center. The administrative salary pool at Highbridge consists primarily of salaries that ACS budgeted for administrative positions to be located in the child-care centers but that Highbridge uses to fund central office positions. In addition, some budgeted salaries for certain program positions, such as group aides and cooks helpers, have also been assigned to the administrative salary pool at Highbridge to help pay for central office positions. Although ACS has not issued guidance on the use of administrative salary pools, it reviews the positions that are included in these pools. ACS has not approved the positions that Highbridge has assigned to its administrative salary pool. Until ACS makes a decision on Highbridge's administrative salary pool, ACS is less able to ensure that Highbridge's spending on central office positions does not negatively impact administrative and program operations in the child-care centers.

¹ The ratio-value method uses operating costs as the basis for allocating administrative costs. The expenses are allocated to programs based upon the ratio of Highbridge's administrative costs to its total operating costs. Highbridge states that it adheres to the ratio-value method of allocation promulgated by the New York State Education Department.

² The units-of-service method is a workload measure by which programs are evaluated and proportionate shares of costs are determined. The units of service relate to the number of attendance days and care days provided by the program during the fiscal year.

The allocation of costs among multiple programs and the use of administrative salary pools by sponsors of multiple centers are not new issues. Until ACS resolves these issues, it will continue to be unable to accurately evaluate Highbridge's financial position to determine the appropriate level of funding. In addition, the lack of a resolution of these issues increases the risk that ACS funds for Highbridge could be misappropriated.

Recommendations

1. ACS should expedite its review of Highbridge's cost-allocation methodology.

ACS Response: "ACS has completed its review of Highbridge's cost allocation methodology and has accepted the cost allocation plan covering the period Fiscal Year 2003 and Fiscal Year 2004. The plan, which was developed by a reputable CPA firm, is based on GAAP standards. However, ACS is currently reviewing Child Care cost allocation guidelines. After ACS reviews and approves the guidelines it will require all sponsors to review their cost allocation plans and make modifications to insure compliance with the revised ACS cost allocation guidelines."

2. ACS should establish a cost-allocation methodology for sponsors of multiple centers with multiple programs and funding streams.

ACS Response: "ACS is currently in the process of developing a cost allocation methodology that is more comprehensive and descriptive than its previous cost allocation guidelines."

3. ACS should expedite its review of Highbridge's administrative salary pool.

ACS Response: "Guidelines for the administrative salary pool are being developed as part of the cost allocation policy."

4. ACS should issue guidance on the use of administrative salary pools.

ACS Response: "Once the cost allocation policy and guidelines are finalized, ACS will notify and distribute the plan to contractors."

ACS Has Not Ensured That Highbridge's Annual Audit Reports Meet ACS Standards

Each year ACS distributes audit guidelines to the child-care centers. These guidelines include specific instructions on how to present certain information in the annual audit reports required by ACS. The guidelines require, among other things, that Highbridge's independent auditor include in the annual audit report a schedule entitled "Statement of Revenues and Expenditures—Budgeted & Actual." The guidelines show how information concerning ACS and CACFP revenue and expenditures should be presented on this schedule. The guidelines also require that the independent auditor provide information on the receipt and use of private tuition fees. However, Highbridge's audit reports for Fiscal Years 1999 through 2003 neither provided

the required Statement of Revenues and Expenditures–Budgeted & Actual schedule nor reported on the receipt and use of private tuition fees. Because ACS did not ensure that these requirements were fulfilled, ACS was less able to accurately evaluate Highbridge’s financial position to determine the appropriate level of funding. In addition, Highbridge’s underreporting of this revenue increased the risk that these funds could be misappropriated.

**ACS Did Not Ensure That Highbridge Reported
The Full Salary Support CACFP Contributed
To the Child-Care Program**

Highbridge receives U.S. Department of Agriculture CACFP funds through the New York State Department of Health to support its nutrition program. For Fiscal Year 2003, NYSDOH budgeted \$1,201,569 in CACFP funds for Highbridge. Of this amount, as shown in Table I below, CACFP budgeted \$185,186 to pay a portion of the salary expenses for food service and related administrative work. However, ACS’s budget for Highbridge only anticipated a CACFP salary contribution of \$61,895. Because ACS did not ensure that Highbridge’s annual audit report provided information on CACFP’s salary contributions to Highbridge, ACS was unaware that Highbridge had received more than \$123,000 in additional salary support through CACFP.

Table I
CACFP Salary Contribution to Highbridge Not Reported to ACS

	(1) CACFP Budget for Salary Expenses at Highbridge	(2) ACS Budgeted Amount for CACFP Salary Contribution to Highbridge	(3) CACFP Salary Contribution Not Reported to ACS (Col. 1 – Col. 2)
Child-Care Centers			
Cooks/Cooks Helpers	\$75,675	\$61,895	\$13,780
Administrative	\$20,870	0	\$20,870
Admin. Salary Pool	\$60,697	0	\$60,697
<i>Sub-total</i>	<i>\$157,242</i>	<i>\$61,895</i>	<i>\$95,347</i>
Family Child-Care Homes			
Administrative	\$12,781	0	\$12,781
Admin. Salary Pool	\$15,163	0	\$15,163
<i>Sub-total</i>	<i>\$27,944</i>	<i>0</i>	<i>\$27,944</i>
Total	\$185,186	\$61,895	\$123,291

When ACS prepares the budget for a child-care center, it includes a budget line for the CACFP salary supplement that NYSDOH pays. This budget line, known as the sponsor’s share, reduces ACS’s salary reimbursement to Highbridge. When ACS completes this budget line, it only includes food service positions (cooks and cooks helpers) in the calculation. ACS officials stated that they use a formula that is applied to the budgeted amount for food service salaries to

estimate the amount of the CACFP salary contribution. However, at Highbridge, CACFP funds also support salaries for food-service-related administrative work. Because ACS did not estimate and Highbridge did not report CACFP's contribution for administrative salary expenses relating to the food service program, ACS overpaid Highbridge for these costs.

Each child-care center has a bookkeeper who, among other things, performs the record-keeping required by the CACFP program. Highbridge also maintains, at one of its centers, support staff for its family child-care homes. These employees are also funded in part by CACFP. The family child-care support staff consists of a coordinator, two assistant coordinators, and one bookkeeper. In addition, as noted above, Highbridge maintains a central administrative unit to help support its eight child-care centers. Highbridge transfers some of the administrative duties, typically done at the child-care centers, to this central unit. To pay the salaries of the central administrative unit staff, Highbridge created an administrative salary pool. However, the annual audit report for Highbridge does not inform ACS about the CACFP funds provided for either the administrative positions at the centers or those transferred from the centers to the central administrative unit. Because ACS did not ensure that Highbridge's annual audit report fully informed ACS about the salary support provided by CACFP, ACS was not in a position either to accurately determine the appropriate level of financial support for Highbridge or to ensure that the funding for Highbridge was appropriately spent.

ACS Did Not Ensure That Highbridge's Reporting and Use of Private Tuition Funds Met ACS Standards

ACS did not ensure that Highbridge reported and used private tuition funds properly. Highbridge provides child-care services to some private students—children whose parents do not qualify for ACS-subsidized child-care. The parents of these children pay the full cost of tuition in private fees. ACS's *Administrative Advisory for Private Tuition Payments in Publicly-funded Child Care Programs* requires that private tuition funds be used to enhance child-care programs (by paying, for example, for field trips or for the replacement of program equipment and supplies) and that any other use of these funds be approved in advance by ACS.

In Fiscal Year 2003, Highbridge collected \$20,659 in private tuition fees. However, it only expended \$4,112 of those fees to enhance the child-care program. Furthermore, as of June 30, 2003, there was a cumulative ledger balance of \$134,642 for the private tuition fund. However, only \$1,696 of this amount was available in a separate bank account. Highbridge inappropriately transferred about \$133,000 from its private tuition bank account to other accounts and therefore did not use this money to provide enhancements to its child-care program. For example, during Fiscal Year 2003, Highbridge transferred \$19,500 from its private tuition bank account to its payroll account to pay regular salaries. There is no evidence that ACS approved any of these transfers. Because ACS did not ensure that Highbridge's annual audit report for Highbridge provided information about its receipt and use of private tuition funds, ACS was not in a position to adequately monitor Highbridge's use of these funds to ensure that they were only spent to enhance child-care programs.

Recommendations

5. ACS should ensure that the annual audit reports for Highbridge contain all the required schedules, including information relating to CACFP salary contributions and the receipt and use of private tuition fees.

ACS Response: “Audit Guidelines for each fiscal year clearly delineate the schedules that are required to be included in the year-end audit. Specific Exhibits for each and every schedule are also included in the Audit Guidelines. If any audit report does not contain all the required schedules, including CACFP information, the program is notified accordingly and the audit report is classified as Incomplete/Unacceptable until the requisite schedules are provided. The Audit Guidelines require that the auditor receive written representation from the agency that they have provided to the auditor all the private tuition books of accounts. If there are no private tuition funds, a note so stating is required in the audit report.”

6. ACS should routinely obtain information from NYSDOH on its CACFP contributions to ACS-sponsored day care centers. ACS should use this information to verify the accuracy of the day care centers’ annual audit reports.

ACS Response: “ACS will contact New York State Department of Health (NYSDOH) and request CACFP salary information for Fiscal Year 2004. If NYSDOH complies with our request, ACS will make every effort to use this information to verify the accuracy of the day care center’s audit reports.”

7. ACS should consider withholding payments to Highbridge relating to the independent auditor’s fees for audit reports that do not contain all of the required schedules and information.

ACS Response: “ACS Child Care Disbursement and Audit areas plan to meet to discuss a policy for the withholding of audit fees for programs with audit deficiencies.”



ADMINISTRATION FOR CHILDREN'S SERVICES
FINANCIAL SERVICES
150 William Street - 10th Floor
New York, NY 10038

JOHN B. MATTINGLY
Commissioner

SUSAN NUCCIO
Deputy Commissioner

November 23, 2004

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 Draft Report ME04-073A
Audit of Highbridge Advisory Council's Compliance
With Certain Financial Provisions of its Contract
With the Administration for Children's Services

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,

Susan Nuccio

Attachments

City of New York Office of the Comptroller
Audit Report of the Highbridge Advisory Council's Compliance
With Certain Financial Provisions of Its Contract With The
Administration for Children's Services
Audit Number ME04-073A

Administration for Children's Services (ACS)
Response to Recommendations
November 23, 2004

Recommendations 1 and 2

ACS has completed its review of Highbridge's cost allocation methodology and has accepted the cost allocation plan covering the period Fiscal Year 2003 and Fiscal Year 2004.

The plan, which was developed by a reputable CPA firm, is based on GAAP standards. However, ACS is currently reviewing Child Care cost allocation guidelines. After ACS reviews and approves the guidelines it will require all sponsors to review their cost allocation plans and make modifications to insure compliance with the revised ACS cost allocation guidelines.

Recommendations 3 and 4

Guidelines for the administrative salary pool are being developed as part of the cost allocation policy. Once the cost allocation policy and guidelines are finalized, ACS will issue them to its contractors.

Recommendation 5

Audit Guidelines for each fiscal year clearly delineate the schedules that are required to be included in the year-end audit. Specific Exhibits for each and every schedule are also included in the Audit Guidelines. If any audit report does not contain all the required schedules, including CACFP information, the program is notified accordingly and the audit report is classified as INCOMPLETE/UNACCEPTABLE until the requisite schedules are provided.

The Audit Guidelines require that the auditor receive written representation from the agency that they have provided to the auditor all the private tuition books of accounts. If there are no private tuition funds, a note so stating is required in the audit report.

Recommendation 6

ACS will contact New York State Department Of Health (NYSDOH) and request CACFP salary information for Fiscal Year 2004. If NYSDOH complies with our request, ACS will make every effort to use this information to verify the accuracy of the day care center's audit reports.

Recommendation 7

The schedules ACS uses to monitor and close out child care are an addenda to the Federal OMB Circular A-133 requirements. In the event that the audit report is submitted and does not contain all of the required schedules and information requested in the Audit Guidelines, it is classified INCOMPLETE/UNACCEPTABLE and the program is notified of the deficiency(ies) in writing.

ACS Child Care Disbursement and Audit areas plan to meet to discuss a policy for the withholding of audit fees for programs with audit deficiencies.

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT OF THE HIGHBRIDGE ADVISORY COUNCIL'S COMPLIANCE
WITH CERTAIN FINANCIAL PROVISIONS OF ITS CONTRACT WITH THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: ME04-073A**

RECOMMENDATION # 1: ACS should expedite its review of Highbridge's cost-allocation methodology.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACS Child Care/Head Start
Judy Shernicoff, Assistant Commissioner Budget, Revenue, and Claiming

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES START END	DOCUMENTATION	COMMENTS
<p>ACS has completed its review of Highbridge's cost allocation methodology and has accepted the cost allocation plan covering the period Fiscal Year 2003 and Fiscal Year 2004.</p> <p>The plan, which was developed by a reputable CPA firm, is based on GAAP standards. However, ACS is currently reviewing Child Care cost allocation guidelines. After ACS reviews and approves the guidelines it will require all sponsors to review their cost allocation plans and make modifications to insure compliance with the revised ACS cost allocation guidelines.</p>	<p>Judy Shernicoff</p>	<p>04/04 11/04</p>		

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT OF THE HIGHBRIDGE ADVISORY COUNCIL'S COMPLIANCE
WITH CERTAIN FINANCIAL PROVISIONS OF ITS CONTRACT WITH THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: ME04-073A**

RECOMMENDATION # 2: ACS should establish a cost-allocation methodology for sponsors of multiple centers with multiple programs and funding streams.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACS Child Care/Head Start
Judy Shernicoff, Assistant Commissioner Budget, Revenue, and Claiming

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES START END	DOCUMENTATION	COMMENTS
ACS is currently in the process of developing a cost allocation methodology that is more comprehensive and rescriptive than its previous cost allocation guidelines.	Larry Lee Judy Shernicoff	09/15/04 03/31/05	ACS Administrative Advisory on Cost Allocation	

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT OF THE HIGHBRIDGE ADVISORY COUNCIL'S COMPLIANCE
WITH CERTAIN FINANCIAL PROVISIONS OF ITS CONTRACT WITH THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: ME04-073A**

RECOMMENDATION # 3: ACS should expedite its review of Highbridge's administrative salary pool.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACS Child Care/Head Start
Judy Shernicoff, Assistant Commissioner Budget, Revenue, and Claiming

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
Guidelines for the administrative salary pool are being developed as part of the cost allocation policy.	L. Lee J. Shernicoff	10/01/04	03/31/05	ACS Administrative Advisory on Cost Allocation	

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
 NEW YORK CITY COMPTROLLER'S AUDIT OF THE HIGHBRIDGE ADVISORY COUNCIL'S COMPLIANCE
 WITH CERTAIN FINANCIAL PROVISIONS OF ITS CONTRACT WITH THE ADMINISTRATION FOR CHILDREN'S SERVICES
 AUDIT NUMBER: ME04-073A**

RECOMMENDATION # 4: ACS should issue guidance on the use of administrative salary pools.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner ACS Child Care/Head Start
 Judy Shernicoff, Assistant Commissioner Budget, Revenue, and Claiming

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES START	DATES END	DOCUMENTATION	COMMENTS
Once the cost allocation policy and guidelines are finalized, ACS will notify and distribute the plan to contractors.	Larry Lee Judy Shernicoff	01/02/05	03/31/05	Administrative Advisory on Cost Allocation	

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
 NEW YORK CITY COMPTROLLER'S AUDIT OF THE HIGHBRIDGE ADVISORY COUNCIL'S COMPLIANCE
 WITH CERTAIN FINANCIAL PROVISIONS OF ITS CONTRACT WITH THE ADMINISTRATION FOR CHILDREN'S SERVICES
 AUDIT NUMBER: ME04-073A**

RECOMMENDATION # 5: ACS should ensure that the annual audit reports for Highbridge contain all the required schedules, including information relating to CACFP salary contributions and the receipts and use of private tuition fees.

RESPONSIBLE MANAGERS' NAME: Tom Welsh, Director Audit Services

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES START	DATES END	DOCUMENTATION	COMMENTS
<p>Audit Guidelines for each fiscal year clearly delineate the schedules that are required to be included in the year-end audit. Specific Exhibits for each and every schedule are also included in the Audit Guidelines. If any audit report does not contain all the required schedules, including CACFP information, the program is notified accordingly and the audit report is classified as Incomplete/Unacceptable until the requisite schedules are provided.</p> <p>The Audit Guidelines require that the auditor receive written representation from the agency that they have provided to the auditor all the private tuition books of accounts.</p> <p>If there are no private tuition funds, a note so stating is required in the audit report.</p>	<p>Muhammad A. Kazi, Director ACS/CC Audit Review and Fiscal Compliance</p>	<p>07/04</p>	<p>Continuing</p>	<p>Year-end Audit Reports</p>	

ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT OF THE HIGHBRIDGE ADVISORY COUNCIL'S COMPLIANCE
WITH CERTAIN FINANCIAL PROVISIONS OF ITS CONTRACT WITH THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: ME04-073A

RECOMMENDATION # 6: ACS should routinely obtain information from NYSDOH on its CACFP contributions to ACS-sponsored day care centers.
 ACS should use this information to verify the accuracy of the day care center's annual audit reports.

RESPONSIBLE MANAGERS' NAME: Tom Welsh, Director Audit Services

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS will contact New York State Department Of Health (NYSDOH) and request CACFP salary information for Fiscal Year 2004. IF NYSDOH complies with our request, ACS will make every effort to use this information to verify the accuracy of the day care center's audit reports.	Muhammad A. Kazi, Director ACS/CC Audit Review and Fiscal Compliance	01/05	Continuing	Information received from NYSDOH and Audit Reports	

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
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AUDIT NUMBER: ME04-073A**

RECOMMENDATION # 7: ACS should consider withholding payments to Highbridge relating to the independent auditor's fees for audit reports that do not contain all of the required schedules and information.

RESPONSIBLE MANAGERS' NAME: Tom Welsh, Director Audit Services

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES START END	DOCUMENTATION	COMMENTS
<p>The schedules ACS uses to monitor and close out child care are an addenda to the Federal OMB Circular A-133 requirements. In the event that the audit report is submitted and does not contain all of the required schedules and information requested in the Audit Guidelines, it is classified INCOMPLETE/UNACCEPTABLE and the program is notified of the deficiency(ies) in writing.</p> <p>ACS Child Care Disbursement and Audit areas plan to meet to discuss a policy for the withholding of audit fees for programs with audit deficiencies.</p>	<p>Muhammad A. Kazi, Director ACS/CC Audit Review and Fiscal Compliance Horace Abrams</p>	<p>11/04 03/05</p>		