

**AUDIT GUIDELINES FOR
CHILD CARE CONTRACT ORGANIZATION
Section II**

**ACS Division of Financial Services
Effective July 1, 2011**



**Michael R. Bloomberg, Mayor
John B. Mattingly, Commissioner**

**AUDIT GUIDELINES
FOR
CHILD CARE CONTRACT ORGANIZATION
TO OBTAIN AUDIT COVERAGE FOR
FISCAL YEAR 2011**

Section II

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ADMINISTRATION FOR CHILDREN'S SERVICES

FINANCIAL SERVICES – CHILD CARE

150 WILLIAM STREET, 10TH FLOOR, NEW YORK, NY 10038

ADMINISTRATION FOR CHILDREN'S SERVICES

AUDIT GUIDELINES FOR CHILD CARE CONTRACT ORGANIZATION TO OBTAIN AUDIT COVERAGE FOR FISCAL YEAR 2011

Section II Information for Contract Organization

1. Choosing an auditor

- a. Follow the procurement standards prescribed by Attachment "O" of Circular A-110 which requires that "small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in contracts awarded to fulfill the requirements of the Circular A-133." Furthermore, it is required that if an ACS Program Audit is appropriate, the CPA selected must currently be on the Comptroller's Pre-Qualified List. However, for those sponsors required to perform A-133 Single Audit or Program Specific Audit, the Federal OMB Circular A-133 provides directions for sub-recipients to contract for audit services, although it is recommended that the Comptroller's Pre-Qualified List is used for **all** audit engagements.
- b. **The audit firm must be independent and licensed to practice in New York State, and if an ACS Program Audit is appropriate, the audit firm must be on the New York City Comptroller's "Pre-Qualified CPA List".** The current "Pre-Qualified CPA List" will be sent to the sponsors along with the Audit Guidelines for Fiscal Year 2011.
- c. To avoid a conflict of interest in selecting an auditor, the Contract organization may not select a CPA Audit Firm that is currently working with the Contract organization or that was engaged in consulting or any business management undertaking with the Contract organization in the Fiscal Year 2011.

The Contract Agency may not choose the same audit firm for more than four (4) consecutive years. The Contract Organization may choose the audit firm that performed its Fiscal Year 2010 audit, unless they have audited for the prior four consecutive years.

However, it is strongly recommended that the term of an audit contract not exceed four years including renewals. When agencies enter into multi-year contracts, the price of each year of the contract must be established in advance and set forth in the agreement.

After four (4) years, a new request for proposals should be issued. If the same firm is awarded the contract in a subsequent four (4) year period, the audit firm should be required to assign a different senior manager and partner-in-charge. Organizations are strongly encouraged NOT to award contracts to the same firm for more than (2) consecutive four year contract periods. This requirement will pertain to partnerships and professional corporations.

If the audit firm is a one-person firm, it should not be hired for more than four (4) years effective with fiscal year 2007.

- d. The Contract organization must secure at least three (3) bids for audit contracts and choose the lowest bid. If the lowest bid is not selected, pre-approval is required from ACS and the Contract organization must request such approval in writing offering justification for the selection.
- e. The Contract organization must inform ACS of the selected audit firm by sending one signed copy of an Engagement Letter (Exhibit I), one signed copy of Audit Firm's Profile (Exhibit II), both on the CPA Firm's Letterhead.

Only an Audit Engagement Letter and Audit Firm's Profile as presented in Exhibit I and II will be accepted. Under no circumstances will another version be accepted. Audit Fees agreed upon must be shown in the Audit Engagement Letter.

2. Should a Contract organization sign a formal agreement or an engagement letter with the auditor?

An Audit Engagement Letter duly signed by the audit firm and accepted by the Contract organization would be sufficient.

Briefly, an Audit Engagement Letter sets forth the terms, conditions and objectives of the audit engagement, the nature and scope of the services to be provided and related timeframes for report delivery and fee arrangements.

3. How will audit fees be paid?

Reimbursement for the audit fees by ACS will be the lower of Fiscal Year 2011 budgeted audit fees or ACS's fair share of your Circular A-133 audit. The lower of the budgeted amount or the actual contract amount will be reimbursed for Program Specific and ACS Program Audit. In no case will reimbursement surpass the amount submitted in the engagement letter.

4. Where should copies of Audit reports be sent?

The following are the distribution requirements

- a. Four (4) bound copies and one (1) PDF copy (sent by email) of the audit report must be sent to the address below:

Attention: Hemang Patel, Director
Child Care Audit Review & Fiscal Compliance
Administration for Children's Services
150 William Street, 10th Floor, Room 10-Q2
New York, New York 10038
Email:acs.sm.FSChildCareAuditReports@dfa.state.ny.us

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- b. One (1) bound copy of the audit report to each Federal Agency that provides Federal Funds.

If your agency receives Federal awards of \$500,000 or more one (1) copy of the audit report must be sent to:

Federal Audit Clearinghouse
Bureau of the Census
1201 East 10th Street
Jeffersonville, Indiana 47132

- c. Two (2) copies of the auditor's invoice must accompany the audits when submitted to ACS. The invoice must include names, hours and rates for each level of staff performing the audit. This includes hours and rates for partners, managers, senior auditors and others. The invoice must include a certification, signed by a partner, that the services described and the numbers of hours stated in the invoice have been performed in accordance with the Audit Engagement Letter between the Contract organization and the CPA Firm.
- d. When submitting the two (2) copies of the invoice to ACS for reimbursement, the Contract organization must attach a letter signed by the Board, confirming that the Audit Report is acceptable, and that the Contract organization paid or intends to pay the CPA Firm.

5. **Should an audit firm's profile be kept by the organization?**

It is strongly recommended that each Contract organization keep on file a profile of the audit firm that is contracted for the Fiscal Year 2011 audit.

6. **How long should copies of the audit report be kept?**

Contract organization should keep copies of the audit report(s) on file for seven (7) years with an understanding that there is **NO** limitation on recoveries resulting from illegal acts or irregularities.

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7. When will cash advances and the detailed expenditures voucher report be sent to the auditor?

Only on receipt of one (1) signed copy of the Audit Engagement Letter and the Audit Firm's Profile, ACS will transmit directly to the CPA Firm hired by the Contract organization:

- a. Cash Advances for the current Fiscal Year and any amounts paid in the current year for prior years.
- b. Detailed Expenditures Voucher Report – with Columns A and B completed.

8. What are the main responsibilities of a Contract organization in providing an audit report?

The Contract organization is responsible for familiarizing themselves, and the audit firm, with the requirements of ACS. Any Contract organization administering Child Care Program(s) on behalf of ACS shall be responsible for:

- a. Establishing a system of accounting and reporting that segregates and identifies financial assistance or grants received by the organization, demonstrating how that assistance or grants were used with the appropriate supporting documentation and providing regular reports to ACS, the primary recipient, for monitoring the use of the assistance or grants.
- b. Complying with laws, regulations and program requirements set forth in written agreement by establishing effective internal control over Federal Programs.
 - i. Identify Fiscal Year in its accounts, all Federal Awards received and expended and the Federal Program under which they were received.
 - Federal Programs and Awards identification shall include, as applicable, the Catalogue of Federal Domestic Assistance (CFDA) title and number, award number and year, name of the Federal Agency, and name of the pass-through entity and amount of Federal expenditures.
 - ii. Maintain internal control over Federal Programs to provide reasonable assurance that the Contract organization is managing Federal Awards in compliance with laws, regulations, and the provisions of contracts or grant agreements.
 - iii. Comply with laws, regulations, and provisions of contracts or grant agreements related to each of its Federal Programs.

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Section II: Information for Contract Organization Cont'd

- iv. Prepare appropriate Financial Statements, including the Schedule of Expenditures of Federal Awards.
 - v. Ensure that the audits required by Circular A-133 are properly performed and submitted when due.
 - vi. Follow up and take corrective action on audit findings, including preparation of a summary schedule of prior audit findings and a corrective action plan.
- c. Sending two (2) copies of the Audit Engagement Letter and the Audit Firm's Profile to ACS within ten (10) days from the date of signing.
- d. Distributing the requisite number of bound copies of the audit reports to ACS, copies of Single Audits to the National Clearinghouse for Single Audits, audits of \$500,000 or more to any Federal Agency from which assistance was received directly.
- e. Sharing Section I of these Audit Guidelines with the Auditor(s) hired to perform an audit for Fiscal Year 2011, before signing the formal Audit Engagement Letter.
- f. Submitting a Corrective Action Plan along with relevant supporting documentation for successful resolution of any fiscal deficiencies noted in the audit.
9. **What can a Contract organization do to make sure that the audit is completed on time?**

Each Contract organization is expected to extend full cooperation to the auditors and be clear about what to expect from an auditor as specified in the Audit Engagement Letter.

In order to ensure timely completion of the audit, each Contract organization should make sure that their books and records are ready for audit, current and complete and contain all known and documented adjustments, and are available for auditors' review and inspection. Refer to:

Attachment 1 entitled "**Preparing for an audit**", and

Attachment 2 entitled "**Documents your auditor may want to look at**"

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Section II: Information for Contract Organization Cont'd

10. Budget

- a. ACS establishes the budget for each program. The budget consists of four (4) budget categories with amounts reflected for the categories under the Provider-Administered and/or City-Administered columns.
- b. The maximum agreement amount shown in Part I of the Purchase of Service Agreement is the Provider-Administered portion of the budget. It is the Provider-Administered portion of the budget and other programmatic funds (i.e. CACFP Funds, Private Tuition Funds, etc.) for which the program is held accountable.
- c. The auditor is to ascertain that the program has provided him/her with the original budget and all modifications to the original budget. Budget changes can only be affected by a budget modification that has been submitted to and approved by ACS, a copy of which must be on file at the program and available to the auditor.
- d. ACS Contracted organizations have the flexibility to shift budget amounts between certain budget lines or categories without prior ACS approval, provided there are sufficient amounts unexpended within other lines or categories. Organizations must submit written notification (via Form 723) of any budget shift so that a formal budget modification can be issued.
- e. The following budget shifts are allowed without prior ACS approval:
 - Funds can be shifted between line items within the “Total Personnel” category.
 - Funds can be shifted between the “Total Personnel” category and the “Total Other Non-Itemized OTPS” category up to a maximum of \$10,000.
- f. If an organization shifts funds within the limits set forth above, but has not notified ACS via Form 1135, the program should be cited for a compliance exception, but the amounts should **NOT** be reflected as questioned costs.
- g. The following budget shifts are **NOT** allowed without prior ACS approval:
 - Funds cannot be shifted between line items in the “Total Facilities” category.
 - Funds **cannot** be shifted to or from the “Total Provider Parent’s Stipend” category.
 - Funds cannot be shifted from OTPS to create new position or pay additional compensations unless approved by ACS.

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11. Cost allocation Plans

Pursuant to the Purchase of Service Agreement (POS), Part II A, Article 5.3, page 11:

- a. ACS reserves the right to require the Sponsor to fairly and accurately allocate costs which are attributable to the operation of two or more programs with distinct funding sources by a method which represents the benefit of such costs to each program. In the event that ACS determines the cost allocation plan is advisable, the Organization shall, within thirty (30) days of notification by ACS, develop and deliver a cost allocation plan for ACS's approval.
- b. No Cost Allocation Plan shall be approved by ACS unless such a plan :
 - Relates to allowable costs as defined in applicable laws, regulations and policies of federal, state, and city government.
 - Relates to costs necessary for the Organization performance pursuant to the POS Agreement.
 - Fairly and accurately reflects the actual allocated share of such cost with respect to the POS Agreement.
 - Is developed in accordance with Generally Accepted Accounting Principles; and
 - Is accompanied by such supporting documentation, as ACS deems necessary to evaluate the plan.
- c. Notwithstanding any provision in this section to the contrary, ACS further reserves the right to withhold any payments to the Organization for allocating costs in the event that ACS deems the Cost Allocation Plan unsatisfactory in whole or in part or determines that such allocated costs have been incorrectly determined, are not allowable or necessary, or are not properly allocated pursuant to this Agreement and/or approved cost allocation plan.
- d. All books, General Ledger and records regarding allocated costs are subject to audit pursuant to this Section of this Agreement as are all other costs, and are further subject to the provisions of Article 5.6 of Part II B of this Agreement with regard to the maintenance of separate and accurate books and records, and Article 5.7 of Part II B of this Agreement with regard to the retention period of books and records.
- e. In the notes to Financial Statements, the auditor will indicate if the sponsor has a cost allocation plan and if the plan was implemented.

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Attachment 1

Preparing for an audit

- 1.** Hire an auditor as early as possible.
- 2.** Understand that the auditor should be trying to help the Organization.
- 3.** Be cooperative with the auditor and answer questions fully and truthfully.
- 4.** Be familiar with the Audit Guidelines, regulations, etc.
- 5.** Furnish the auditor with copies of the following:
 - a.** Grants, budgets, etc.
 - b.** Financial reports.
 - c.** Books of original entry.
 - d.** Listing of bank accounts and investment, if any.
 - e.** Organization chart.
 - f.** Contracts, leases, insurance policies etc.
 - g.** Board and committee minutes.
 - h.** Listing of administrative and financial staff and their functions.
 - i.** Policies, personnel files, payroll records etc.
 - j.** Correspondence relating to prior audits and other financial matters.
 - k.** Bank reconciliations.
 - 1.** Documentation for receipts, disbursements, accruals etc.

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Section II: Information for Contract Organization Cont'd

Attachment 1

Preparing For an audit (Cont'd)

- m. Listing of accounts payable, accounts receivable and accruals as of the end of the audit period.
 - n. Inventory of equipment with cost.
 - o. Regulations, manuals, etc.
 - p. Other information requested by the auditor.
 - q. Copies of prior years' Cash Closeout Reconciliations received from ACS along with any correspondence.
 - r. Cost Allocation Plan
6. Have a planning discussion or meeting with the auditor.
 7. Be sure the books are ready for audit (current and complete), and contain all known and documented adjustments.
 8. Be sure bank accounts are reconciled.
 9. Be sure documentation is ready available and complete.
 10. Have workspace available
 11. Prepare Schedules for the auditor, if possible.
 12. Have auditor brief you and your staff on the audit.
 13. Assign a staff person to assist the auditor.
 14. Be available to answer questions and find information or documentation, but do not bother or pester the auditor.

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Section II: Information for Contract Organization Cont'd

Attachment II

Documents your auditor may want to look at (Arranged alphabetically)

1. Accounts Payable Journal -- Schedule
2. Application - Staff
3. Bank Reconciliations
4. Bank Statements
5. Blank Checks
6. Board Minutes
7. Budgets and budgetary information or summaries
8. Cancelled Checks
9. Cancelled Payroll Checks
10. Cash Disbursements Journal
11. Cash Receipts Journal
12. Check Registers, if any
13. Cost Allocation Plan
14. Earnings Records
15. Employees' Evaluations
16. Expense Reports
17. Financial Procedures Manual
18. General Ledger
19. Insurance Policies

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Section II: Information for Contract Organization Cont'd

Attachment II

Documents your auditor may want to look at (Cont'd)

20. Job Descriptions
21. Leases
22. Leave Records
23. Loans between Programs, if any
24. Monitoring Reports
25. Organization Chart
26. Other Deduction Authorizations
27. Paid Invoices
28. Payroll Registers
29. Payroll Reports -- Tax Returns/Reports
30. Personnel Policies
31. Prior Audit Reports
32. Program Income Records
33. Property Records - List of Equipment Inventory with cost
34. Purchase Orders
35. Records of Services Provided
36. Request for Proposals, if applicable
37. Subcontracts
38. Time and Attendance Reports

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Section II: Information for Contract Organization Cont'd

Attachment II

Documents your auditor may want to look at (Cont'd)

- 39.** Transfers/Termination Forms
 - 40.** Travel Authorizations
 - 41.** Travel Reimbursements
 - 42.** Trial Balances
 - 43.** Union Contracts
 - 44.** Voided Checks
 - 45.** Vouchers and Invoices Supporting Payments
 - 46.** W-4s, W-3s and W-2s
 - 47.** Working papers supporting Financial Statements
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