

HEAD START AUDIT GUIDELINES

ACS Division of Financial Services
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Michael R. Bloomberg, Mayor
John B. Mattingly, Commissioner

ADMINISTRATION FOR CHILDREN'S SERVICES

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**ADMINISTRATION FOR CHILDREN'S SERVICES
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TABLE OF CONTENTS**

		Pages
Section 1010	Objective of the Audit	5
Section 1020		
.01	Segments of the Audit	5
.02	Financial Audit	5
.03	Report on Compliance	6
.04	Report on Internal Control Structure	6
Section 1030	Steps Taken Prior to Beginning of the Fieldwork	6
Section 1040	Who to Contact for Assistance	7
Section 1100	Summary of Applicable Literature	7-10
Section 1200		11-37
.01	List of Requirements to Assist the Auditors	11
.02	Audit Performance According to GAAS, GCGAS and other Standards	12
.03-.09	Audit Planning	12 - 15
.10	Audit Programs	15
.11-.14	Payroll	16-17
.15-.16	Collective Bargaining Agreement and/ or Salary Increases	17
.17-.21	Compliance with Contracts, Laws and Regulations	17 -18
.22-.25	Budget Compliance	19
.26	Consultant and Contract Services	20
.27	Consumable Supplies	20
.28-.29	Equipment/Fixed Assets	20
.30-34	Advances and Payments	21
.35	Security Deposits	21
.36-.37	Insurance Charges	21 - 22
.38-.39	Interagency, Inter-Program and Inter-Year Loans	22
.40-.42	Compliance with Quantified Program Objectives	22-23
	Political Activity	23
	Davis Bacon Act	24
	Civil Rights	24
	Cash Management	25

**ADMINISTRATION FOR CHILDREN'S SERVICES
HEAD START AUDIT GUIDELINES
TABLE OF CONTENTS**

		Pages
Section 1200		
	.43 Minutes	26
	.44 Representation Letter	26
	.45-.47 Questioned Costs	27-29
	.48-.50 Follow-Up on Prior Period Audit Reports	29
	.51-.55 Prior Year Balances	30
	.56-.58 Reporting Errors, Irregularities	31
	.59 Excessive Compensation	31
	.60 Competitive Bidding	31
	.61-64 Contact Cross-Check Questionnaire	32
	.65 Registration and Reporting Requirements	32
	.66 Additional Audit Considerations	33
	.67 Third Party Income	33
Section 1210	Representation Letter	34-37
Section 1300	Requirements for Testing Cost Allocation Charges and / or System	37-40
Section 1400	Delegate Agency Expense Summary (DAES)	40-42
Section 1500	Full Scope Audit Reporting Requirements	43
Section 1510		44-53
	.01 Independent Auditor's Reports	44
	.02-.08 Independent Auditor's Reports on the Financial Statements	44-45
	.09-.15 Independent Auditor's Report on Compliance	45-48
	.16-.24 Independent Auditor's Report on Internal Control Structure	49-53
Section 1520		
	.01-.03 Audited Financial Statements	54
	.04-.09 Statement of Assets and Liabilities	54
	.10-.23 Statement of Revenues and Expenditures	55-56
	.24-.42 Footnotes	56-60
	.43-.50 Supplementary Schedules	60-62
Section 1530		
	.01 Other Information	62
	.02-.03 Title Page	62
	.04 Table of Contents	62
	.05-.10 Compliance and Internal Control Structure	63

**ADMINISTRATION FOR CHILDREN'S SERVICES
HEAD START AUDIT GUIDELINES
TABLE OF CONTENTS**

		Pages
Section 1540	Illustrative Audit Report	64-117
Section 2000		
.01-.02	Program Background	118
.03	Compliance	118
.04-.05	Attendance	118-119
.06-.07	Food Service	119
.08-.09	Facilities	120-122
.10-.11	Program Operations	122
.12-.13	Health	122-124
.14-.16	Property Management	124-125
.17-.20	Approval for Budget Revisions	126-127
.21-.24	Personnel Management	127-129
.25-.27	Policy Groups	129-130
.28-.30	Eligibility	130
.31-.32	Prior Period Approvals	131-132
.33-.37	Audit Requirements	132
.38	Confirmations	133
.39-.40	Reporting Requirements	133
.41-.42	Schedules	134-137
.43	Significant Compliance Requirements	138-139

Section 1010

Objective of the Audit

- .01 The purpose of the audit is to determine and report whether:
- Effective control and proper accounting is maintained for revenues, expenditures, assets, liabilities;
 - Financial Statements are presented fairly in accordance with Generally Accepted Accounting Principles;
 - The delegate agency has complied with the relevant laws and regulations affecting the program;
 - The delegate agency has complied with specific quantified contractual requirements and limitations; and
 - Financial reports (including status reports, cash reports, and claims for Advances and Reimbursements) are complete, reflect the amounts recorded in the books and records of the organization, and are presented fairly and in accordance with the terms of applicable agreements.

Section 1020

Segments of the Audit

- .01 The preceding objectives result in an audit divided into three segments that are performed concurrently – the Financial Audit, a Report on Compliance and a report on Internal Control Structure. The audit report must address all three segments.

Financial Audit

- .02 Full scope financial audits are required for the program year-end period of January 31. The full scope of an audit report must contain an expression of an opinion concerning whether the financial statements are presented fairly, in all material respects, in accordance with Generally Accepted Accounting Principles. If an Unqualified Opinion cannot be expressed, the nature of the qualification or the reason for a disclaimer should be stated. The opinion should also state that the audit was performed in accordance with Generally Accepted Auditing Standards (GAAS) Government Auditing Standards. (GAO Yellow Book and the provisions of this ACS Head Start Audit Guidelines.

Report on Compliance

- .03 All audit reports must contain a report on compliance in accordance with the requirements of the Yellow Book and SAS No. 63. Auditors are to prepare a written report on their tests of compliance with applicable laws and regulations. This report should contain a statement of positive assurance on those items which were tested for compliance and negative assurance on those items not tested. It should include all instances of noncompliance, and all instances or indications of illegal acts which could result in criminal prosecution. The auditor must make a sufficient examination to report on the delegate agency's compliance with the applicable law and regulations and specified quantified contractual requirements. Specific compliance areas are delineated in separate pages. The auditor communicates the results of the compliance testing in the report on compliance.

Report on Internal Control Structure

- .04 All delegate agencies' audit reports must contain a report: the delegate agency's Internal Control Structure. This report is to be based on the understanding of the Internal Control Structure made as part of the audit of the delegate agency's Financial Statements under the requirements of SAS No's 55, 60 and 63 and the Yellow Book. Auditors are to prepare a written report on their understanding of the delegate agency's Internal Control Structure and the assessment of Control Risk made as part of a Financial Statement Audit. The auditor's report should include as a minimum: (1) the Scope of the auditor's work in obtaining an understanding of the Internal Control Structure and in assessing the Control Risk, (2) The entity's significant Internal Controls or Control Structure including the controls established to ensure compliance with laws and regulations that have a material impact on the Financial Statements, and (3) the Reportable Conditions, including the identification of Material Weaknesses, identified as a result of auditor's work in understanding and assessing the Control Risk.

Section 1030

Steps Taken Prior to Beginning the Fieldwork

Review the following documents, noting items requiring follow-up during the audit (such as Questioned Costs, Amount Due to ACS, Audit Findings, Weaknesses in Internal Control Structure, and Standards for the Audit);

- Prior-Year Audit Report;
- Contract between ACS. and the Auditor;
- Contract between ACS and the Delegate Agency;
- The Fiscal (Accounting) Manual;
- Approved Budget, including all Modifications;
- Latest Monitoring Reports and the resulting Delegate Agency Response or Plan of Action to Correct Deficiencies cited; and
- Cost Allocation Plan
- Allocation of Joint Cost
- Functional Allocation
- The ACS Head Start Audit Guidelines.

- Auditors awarded an Agreement to Audit any programs shall be required, upon commencement of a full scope audit, to perform a Preliminary Survey of the contract agency's operations and books of account and notify ACS Head Start or ACS Audit Division, in the form of a letter report (Management Letter), whether there exist problems that could potentially delay the audit process and the timely submission of the audit report. The Management Letter must specify the problems identified during this survey. This letter is required even if there are not existing problems. In the latter case, the letter would be issued stating that there are no existing problems.

Section 1040

Who to Contact for Assistance

In conducting audits of the delegate agencies, questions may arise concerning the, required ACS audit procedures and ACS audit report format and contents. These questions should be directed to the Assistant Director of ACS Head Start Internal Audit Services at (212) 676-9145.

Section 1100

SUMMARY OF APPLICABLE LITERATURE

- .01 In performing governmental audits, the Statements on Auditing Standards (SASs) are applicable. Therefore, the auditor should perform the examination, at a minimum, in accordance with generally accepted auditing standards. However, in governmental audits, there are numerous other official publications of which the auditor must be knowledgeable, and the auditor must perform the examination in accordance with the provisions of these additional regulations. The AICPA recognized these additional standards and/or procedures and concluded the following in Ethics Ruling 501-3:

Failure to follow standards and/or procedures or other requirements in governmental audits. Engagements for audits of government grants, government units or other recipients of government monies typically require that such audits be in compliance with government audit standards, guides, procedures, statutes, rules, and regulations, in addition to generally accepted auditing standard& If a member has accepted such an engagement and undertakes an obligation to follow specified government audit standards, guides, procedures, statutes, rules and regulations, in addition to generally auditing standards, he is obligated to follow such requirements. Failure to do so is an act discreditable to the profession in violation of Rule 501, unless the member discloses in his report the fact that such requirements were not followed and the reasons therefore.

.02 Therefore, failure to follow the standards and/or procedures contained in the following publications, without disclosure in the accountant's report, will be in violation of Ethics Rule 501. In addition, a reference in the Accountants' Report that the audit was conducted in accordance with the provisions of the ACS Head Start Audit Guidelines incorporates the applicable provisions of the following publications as well as the other applicable GASB, FASB, and AICPA pronouncements. (Note: The federal funding source determines the applicability of the federal publications.)

- **AICPA**

- Audit and Accounting Guide, "Audits of State and Local Governmental Units," Revised Edition, January 1986.
- In addition to the above, the following statements on auditing standards are critical in the performance of audits on ACS Head Start.
- SAS No. 53 - The auditor's Responsibility to Detect and Report Errors and Irregularities (Issued April 1988)
- SAS No.54 - Illegal Acts by Clients (Issued April 1988)
- SAS No. 55 - Consideration of the Internal Control Structure in a Financial Statement Audit(Issued April 1988)
- SAS No.63 – Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance (Issued April 1989)

- **Federal Government**

- Government Auditing Standards 1988 Revision (Comptroller General of the United States, General Accounting Office.)
- The Single Audit Act of 1990
- United States General Accounting Office, Reports to the Chairman, Legislation and National Security Subcommittee, Committee on Government Operations, House of Representatives, "CPA Audit Quality – Inspectors General Find Significant Problems" (December 1985) and "CPA Audit Quality – Many Governmental Audits Do Not Comply with Professional Standards" (March 1986).
- Office of Management and Budget Circular A-21, "Cost Principles for Educational Institutions."

- Office of Management and Budget Circular A-87, “Cost Principles for State and Local Governments.”
- Office of Management and Budget Circular A-110, “Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations.
- Office of Management and Budget Circular A-102, “Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments.”
- Office of Management and Budget Circular A-122, “Cost Principles for Nonprofit Organizations.”
- Office of Management and Budget Circular A-133, “Audit Requirements for Universities and Other Nonprofit Organizations.”
- Office of Management and Budget, “Compliance Supplements for Single Audits of State and Local Governments.” (Revised April 1985)
- Department of Labor, “Implementing Regulations for Programs under the Job Training Partnership Act.” Dated March 15, 1983.
- Department of Health and Human Services, “Guide for Audits of Head Start Program Grants.”
- Department of Health and Human Services, “Guidelines for Audits of Federal Awards to Nonprofit Organizations.
- Office of the Federal Registrar, “Code of Federal Regulations” (CFR).
- **State of New York**
 - State of New York, Department of Labor, “Job Training Partnership Act Audit Guide, Book B; SDA Audits of Subgrantees”, dated October 1983 as revised February 10, 1984.

- **City of New York**

- Comptroller's Internal Control and Accountability Directive 5, "Use of Public Accounting Firms for Audits of Delegate Agencies and Programs."
- Comptroller's Internal Control and Accountability Directive 2, "Guidelines for Audit Vouchers Submitted under Cost Reimbursable Contractual Agreements."

03 The auditor should obtain and become familiar with the above publications prior to submitting a proposal to audit the programs of the delegate agencies.

Section 1200

AUDIT REQUIREMENTS

.01 The following are the requirements to assist the auditor in conducting the audit. The auditor's Working Papers should clearly document adherence with these requirements:

- Planning the Audit Engagement;
- Developing Audit Program;
- Observing the Distribution of Payroll Checks and Surprise Floor Checks during the period under audit;
- Determining Compliance with Contracts, Laws, and Regulations;
- Determining Compliance with the Budget;
- Determining Compliance with Contracts;
- Observing and Recording significant amounts of Inventory;
- Verifying the accuracy of Inventory Count of Fixed Assets for every two years;
- Confirming Advances and Payments to ACS;
- Auditing Insurance Charges paid by the City of New York in behalf of the delegate agencies;
- Confirming Security Deposits;
- Disclosing Interagency, Inter-Program, and Inter-Year Loans;
- Determining Compliance with the Reporting of Quantified Program Objectives;
- Reviewing Sponsoring Board of Directors Minutes;
- Obtaining a written Representation Letter from the Management of the Delegate Agency;
- Determining and Reporting of Questioned Costs;
- Reviewing Prior-Year Balances;
- Determining Status of Prior-Year Audit Reports and Findings;
- Reporting Errors and Irregularities;
- Being aware of Excessive Compensation;
- Determining Compliance with Competitive Bidding Procedures;
- Verifying Contract Cross-Check Questionnaire;
- Being aware of Additional Audit Concerns;
- Determining Third-Party Income;
- Testing of Indirect Costs;
- Preparing Delegate Agency Expense Summary (DAES); and
- Attending Entrance and Exit Conferences with Representatives from Delegate Agency and Constituent Agencies.

- .02 Audits must be performed in accordance with generally accepted auditing standards, generally accepted government auditing standards, and the other standards mentioned earlier. Statistical or no statistical sampling methods may be used in conducting the audit, if they are applied in accordance with generally accepted auditing standards promulgated by the AICPA. See SAS No. 39, "Audit Sampling" for further guidance.

Planning

- .03 Generally Accepted Auditing Standards require that audit engagements be adequately planned. The auditor should also be aware of government auditing standards as they apply to planning an audit. The AICPA has issued SAS No. 47, "Audit Risk and Materiality in Conducting an Audit" that should also be considered (AU Sections 311 and 312).

In accordance with Government Auditing Standards (Yellow Book), the auditor should consider materiality and for significance in planning the audit and in selecting the methodology and designing audit tests and procedures as well as in deciding whether a matter requires disclosure in an audit report. One of the criteria to be considered in determining materiality includes the monetary value of the item. However, materiality and significance often depend on qualitative as well as quantitative factors. Qualitative factors include, but are not limited to the cumulative effect and impact of immaterial items, the objectives of the work undertaken, and the use of the reported information by the user or groups of users of the information. Decisions on these criteria are based on the auditor's professional judgment. In government audits the materiality level and/or threshold of acceptable risk May be lower than in similar-type audits in the private sector because of the public and the visibility and sensitivity of government programs, activities and functions.

- .04 The following highlight some planning considerations that would be particularly important in performing audits in accordance with this Audit Guidelines. In conducting an audit of a delegate agency, the auditor should:

- Identify the engagement's reporting objectives (see Section 1010 for Statement of Audit Objectives);
- Consider the audit focus of delegate agency Financial Statements;
- Obtain an understanding of the delegate agency's Internal Control Structure and assess the Control Risk for the assertions embodied in the Account Balance, Transaction Class, and Disclosure Components of the Financial Statements.

- Evaluate factors affecting the Scope of testing;
- Establish the type of audit tests to be performed (audit approach); and
- Establish the general nature and content of audit programs:

The planning process continues throughout the examination. Early planning is useful in establishing the probable level and type of effort necessary to conduct the engagement.

.05 When planning the audit, supplemental fieldwork standards as required by the auditor should take into consideration the Government Auditing Standards (GAO Yellow Book). Listed below are those standards along with explanatory highlights of the standard. (For a more complete and detailed explanation, the auditor should refer to pages 4-1 through 4-8 of the Yellow Book.)

- Planning should include consideration of the audit requirements, programs, activities or functions may be required by Federal, state and local laws, regulations and ordinances. When this situation exists, the auditor should ascertain what governments are to be served by the audit, and, to the maximum extent practicable, plan the audit so that it will help fulfill the legal and regulatory needs of identified potential users.
- A test should be made of compliance with applicable laws and regulations
 - In government auditing, compliance with laws and regulations is important because government organizations, programs, activities and functions are usually created by law and are subject to more specific rules and regulations than the private sector.
 - An entity's management is responsible for establishing an internal control structure to assure compliance with laws and regulations.
 - In planning and conducting the tests of compliance, the auditor should identify the pertinent laws and regulations and determine which of those laws and regulations could, if not observed, direct and material effect on the financial statements.
 - In determining compliance with laws and regulations:
 - The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the Financial Statement amounts.

- The auditor should also be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements.
 - A record of the auditor's work should be retained in the form of Working Papers.
 - Working papers should be retained for a period of six (6) years from the end of the Audit Period.
 - A sufficient understanding of the Internal Control Structure is to be obtained to plan the audit and to determine the nature, timing and extent of tests to be performed.
- .06 As part of the planning process, the auditor should take into consideration that assessing the Internal Control Structure is expected to be performed as part of the audit. Obtaining an understanding of the Internal Control Structure without assessing control risk is acceptable only in certain exceptional situations as described in a footnote to the “Independent Auditor’s Report on Internal Control Structure”.
- .07 Before starting the Fieldwork, the auditor normally analyzes certain key organizational and environmental factors that may affect the Scope of the engagement. Some of the factors considered are:
- The effectiveness of the overall financial controls, including, among other factors, the ability to operate within approved budgets and issues timely and accurate financial reports;
 - The appropriate segregation of duties and responsibilities;
 - The dependence of the delegate agency on one or more individuals to operate key programs or manage the budget of financial reporting function;
 - The effectiveness of any internal audit function;
 - Turnover of key Personnel;
 - Qualifications of key Personnel;
 - Federal or State requirements for expanded Audit Scope;

- Qualification in Prior-Period Auditor's Reports and Material Internal Control Weaknesses and Compliance exceptions reported;
 - The ability of key subsidiary accounting systems to produce data necessary to support Financial Statements; and
 - Decentralized or centralized records;
- .08 As part of gaining an understanding of the Control Structure, the auditor should consider the following:
- The ability to demonstrate compliance with ACS, State and City Statutes, Charters, and Ordinances as applicable;
 - The accuracy and comprehensiveness of internal financial reporting,
 - Existence of adequate Policy and Procedure Manuals; and
 - The documentation of manual and automated systems.
- .09 The preliminary planning phase includes:
- Reviewing Prior-Year Working Papers where the auditor has performed the previous year audit of the delegate agency program;
 - Reviewing Prior-Year's Audit Reports;
 - Reviewing current accounting and auditing pronouncements;
 - Discussing the nature, timing, and extent of the audit procedures with the delegate agency.
 - Determining the need for special assistance (for example, computer expertise); and
 - Reviewing minutes, important agreements, and contracts.

Audit Programs

- .10 The auditor should develop an audit programs and, in the course of the audit, be aware that the audit program may need to be changed because of, for example, the unexpected result of testing the Internal Control Structure, substantially changed facts, or unanticipated activities of the delegate agency. SAS no's. 22 and 41, among other pronouncements, provide guidance on audit programs and other working paper documentation.

Payroll

- .11 Since the Payroll is generally the single largest item of expenditure for a given delegate agency, ACS requires that, during the course of either the semi-annual (interim) or annual audit (in addition to the usual Payroll Audit Procedures), the auditor must:
- On a surprise basis, select a sample and witness the distribution of the Payroll Checks. For delegate agencies with 20 employees or less, the distribution and/or alternative procedures should include all employees (see Section 1540 – see pages 107-108).
 - Select a sample and make surprise "Floor Checks" of persons charged to the program are physically accounted for. For delegate agencies with 20 employees or less, the Floor Checks and/or alternative procedures should include all employees (see Section 1540 – see pages 107-108).
 - Distribution of Payroll Checks and Floor Checks must be coordinated by the auditor with the work schedule of the delegate agency. If the delegate agency has employees reporting for work at different times of the day, the auditor must be present at the delegate agencies at the various times that the employees are scheduled to work.
- .12 The above procedures must be performed during the period under audit. It is not acceptable to perform the above procedures in the period after year-end. The report on internal control structure must contain a positive assertion that the above procedures were performed, including the date performed. If the above procedures cannot be performed, the Report on Internal Control Structure must contain a description of the alternative procedures performed. Some typical alternative procedures (not all-inclusive) include:
- Determining the existence of employees by physically meeting such individuals. The auditor should obtain a copy of the most recent Payroll, review proper identification for all employees and have the said employees sign the register in an appropriate location to signify that the amount of the paycheck listed was the amount of pay as received by the employee. This procedure can only be utilized for ACS funded programs with 20 or less employees.
 - For Payroll Checks mailed directly to employees - Mail the Payroll Checks to employees in the auditor's envelope. Checks should remain under the auditor's control at all times and should not be returned to the delegate agency for mailing or any other purposes. Post Office returns would then be received directly by the auditor for follow-up. When canceled checks are returned by the bank, compare the endorsements on the checks to the signatures in the Personnel Files.

- For Payroll Checks mailed directly to employees-Wait until the canceled checks are returned by the bank compare the endorsements on the checks to the signature in the Personnel Files.
 - For Direct Deposit - Mail a letter along with the Payroll Stub (summary), to the employee, have the employee sign the letter that confirms that he or she is a bonafide employee of the delegate agency and that the amount shown on the check stub was deposited into his or her account, and return the letter, in a postage paid envelope, to the auditor. The signatures on the letters are then compared to signatures in the Personnel File.
- .13 In addition, the auditor should determine that all Quarterly and Annual Payroll Tax returns (941s, State Withholding Taxes, City Withholding Taxes, and State Unemployment Insurance) were properly filed and amounts due paid on a timely basis. Delinquency in filing or paying of payroll taxes for the sponsor (regardless of the program involved) must be disclosed in the report on compliance along with the amounts of any Penalties or Interest resulting from the delinquency.
- .14 The auditor should determine adherence with the provisions of any Collective Bargaining Agreements and ACS guidelines for staff salary adjustments.; The amount paid should be in accordance with the agreements, and the individuals being paid should meet the criteria contained in the agreements:

Collective Bargaining Agreement and/or Salary Increases

- .15 The auditor should determine that the provision of the Collective Bargaining Agreement and Salary increases is being adhered to by the delegate agency. In auditing Payroll Costs, the auditor should ascertain that the Payroll amounts paid is in accordance with the Collective Bargaining Agreement and/or the salary increase effective when the Payroll was actually paid
- .16 Retroactive salary adjustments, including amounts related to current and prior periods should be reported as a separate line in the current-year financial statements. Retroactive salary increases should also be itemized in a footnote to the Financial Statements indicating the amount paid, including appropriate fringe benefits and the retroactive period covered. This should be on an actual cost basis. Estimates should not be made for retroactive salary adjustments.

Compliance with Contracts, Laws, and Regulations

- .17 In a non-governmental setting, the term "Compliance Testing" usually refers to testing for compliance with Internal Control Procedures. Though such tests are also appropriate in a governmental environment, references to compliance testing also include tests performed to determine whether the government is complying with the provisions of laws, regulations, and contractual grant, loan, and other assistance agreements. In government auditing, compliance with laws and regulations is important because government organizations, programs, activities and functions are usually created by law and are subject to more specific rules and regulations than the private sector.

- .18 In determining the nature, timing and extent of the audit steps and procedures to test for Compliance, the auditor should assess the risk of Non-Compliance with laws and regulations occurring and having a direct and material effect on the Financial Statements. The auditor should assess the risk that the entity did not comply with, those laws and regulations, and the risk that the entity's control structure, to ensure compliance with laws and regulations might not prevent or detect that noncompliance.
- .19 The Yellow Book, regarding Compliance, requires that the auditor, in Planning and conducting test of Compliance, should:
- Identify the pertinent laws and regulations and determine which of those laws and regulations could, if not observed, have a direct and material effect on the Financial Statements.
 - Assess, for each material requirement, the risks that material noncompliance could occur. This includes considerations and assessment of the Internal Controls in place to assure Compliance with laws and regulations.
 - Based on that assessment, design steps and procedures to test compliance with laws and regulations to provide reasonable assurance of detecting both unintentional instances of Non-Compliance and intentional instances of Non-Compliance that could have a material effect on the Financial Statements.
- .20 In determining Compliance with laws and regulations, the auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the Financial Statement amounts.

More specific guidance on the above requirement is provided in Section 1200.56 (see page 33) of this guide.

- .21 In performing Compliance testing on an ACS funded program, the auditor must follow the requirements of Compliance Auditing as specified in AICPA SAS NO.63, Compliance Auditing applicable to governmental entities and other recipients of governmental financial assistance. SAS NO.63 states that the "auditor should design the audit to provide reasonable assurance that the Financial Statements are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of Financial Statement amounts. This responsibility exists in all audits conducted in accordance with Generally Accepted Auditing Standards".

SAS NO. 63 require that:

- The auditor should obtain an understanding of the possible Financial Statement effects of laws and regulations that are generally recognized by auditors to have a direct and material effect on the determination of amounts in a governmental entity's Financial Statements. The auditor should also assess whether management has identified laws and regulations that have a direct and material effect on the determination of amounts in the governmental entity's Financial Statements.
- The auditor should document procedures performed to evaluate Compliance with laws and regulations that have a direct and material effect on the determination of Financial Statement amounts in accordance with SAS NO. 41, Working Papers and additional Working Paper requirements as detailed on page 4-6 of the GAO Yellow Book.

Budget Compliance

- .22 The auditor is to ascertain that the delegate agency has provided him or her with the original budget and all modifications to the original budget. (See related discussion on Delegate Agency Expense Summary (DAES) in Section 1400.) Any Excess of Expenditures over the Annual Budget, by budget category, must be a Questioned Cost and explained in detail in a schedule in the audit report.
- .23 Some programs allow for Percentage Overages or Offsetting Overages.
- .24 If copies of the budget and/or contract are not available from the delegate agency, contact ACS Head Start Internal Audit Services for copies. The auditor should not conduct an audit without obtaining these documents. If the delegate agency does not have copies of the program budget and/or contract, this fact, should be disclosed in the Compliance Report.
- .25 The auditor should ensure that a fully executed copy of the contract between ACS and the delegate agency is on file at the delegate agency. The contract is a standardized preprinted contract. The auditor should determine that the contract contains:
 - The Commissioner's or the Deputy's signature, acknowledged by a notary;
 - Authorized signature of a delegate agency Board member (preferably the Chairman of the Board) or authorized designee:
 - The impressed Corporate Seal, also acknowledged by a Notary, and
 - A complete copy of the delegate agency budget

Consultant and Contract Services

- .26 All significant contracts should be reviewed to determine Compliance with the terms of the contract by the delegate agency or other party to the contract. If it appears that there is significant Non-Compliance with the contract terms, without justification, the Compliance Report should contain an explanation of the Non-Compliance. The auditor should determine that the individuals receiving funds meet the criteria for Independent Contractor Tax Status. In addition, the auditor should be aware of the possibility of related parties.

Consumable Supplies

- .27 Significant amounts of Inventory On Hand as of the end of the audit period should be recorded in the Statement of Assets and Liabilities. For significant amounts of Inventory On Hand at the period-end, an Inventory Count should be conducted by the delegate agency and observed by the auditor and the resultant quantities valued. The extended Inventory Value is then presented in the Statement of Assets and Liabilities. If excessive amounts of Inventory are on hand as of the end of the delegate agency's fiscal year, the auditor should consider questioning the expenditures that resulted in the Inventory build-up as unreasonable.

Equipment/Fixed Assets

- .28 Since Federal, State and/or City monies provide the funding to obtain Equipment and Fixed Assets; they are the property of the City of New York. The auditor is required to verify the accuracy of the delegate agency prepared annual physical Inventory of all Equipment and/or Fixed Assets of the delegate agency during the year-end (final) audit.

The Inventory Listing is to be provided in a Schedule to the Financial Statements. Dollar amounts are required in the Schedule for at last Current-Year Acquisitions and Prior-Year Acquisitions (if provided in previous audit reports).

The auditor should compare the list contained in the previous audit report and ascertain the, disposition of items not included in the current-year listing. For programs that require prior approval for dispositions or acquisitions, ascertain that the approvals were obtained and required bidding procedures, if any, were followed. If significant amounts of Equipment or Fixed Assets were purchased at the end of the program year, the auditor should consider questioning the expenditures as unreasonable.

- .29 In addition, the auditor should select a sample of Current-Year Fixed-Asset purchase and:
- Trace the purchased item to the Inventory Listing, thus ensuring its inclusion in the physical inventory per Section 1200.28.
ACS is required to confirm all current year advances as well as Prior Year Payments made.

Advances and Payments

- .30 Material amounts of Advances and Payments received by the delegate agency must be confirmed. The most significant amount of program funding will be Advances and Payments from ACS. The auditor is required to request a Confirmation of, Advances or Payments with ACS Payment Unit. For Prior-Year programs, additional Advances and Payments received during the Current-Year will also be included in the information confirmed by ACS to the auditor
- .31 The auditor is required to confirm the amounts of Advances and Payments received from other sources. These additional confirmations of advances and payments, when appropriate should be sent to the appropriate address accompanied with a self-addressed, stamped envelope.
- .32 As with any Receivable (Prior-Year or Current-Year), the collectability of the Receivable should be evaluated and determined.
- .33 In addition, the auditor should be aware of billings submitted to both ACS and other funding sources for the same services rendered. On a test basis, the auditor should determine if the billings submitted by the delegate agency for services required under the contract to ACS for payment are also submitted to another funding source for the same services rendered. Any such double billings should be disclosed in the Compliance Report.
- .34 The first dollars expended by the agency is charged against the Universal Pre-Kindergarten (UPK) Budget. All funding received from the UPK Program should be fully expensed. At the end of the program year a Fund Balance in the UPK Budget should not exist.

Security Deposits

- .35 Due to the significance in some delegate agencies of Security Deposits and the related Interest Income thereon and the potential for losing accountability for the asset, for all delegate agencies, the auditor should confirm, with the holder of the deposit, all original deposit amounts, any additional deposit amounts and the Interest earned on the deposit(s). The amount of the deposit and related Interest Income should be reflected in the Financial Statements of the delegate agency.

Insurance Charges

- .36 Most delegate agencies Insurance is paid by the City of New York each delegate agency maintains a Premium Registry which gives the Number of Employees Covered and the Type of Coverage provided. The reports contain the Names of Employees, Social Security Numbers, and Amounts Paid for which Insurance Costs are paid on behalf of the delegate agency.

The auditor will be sent a Schedule (for the final audit only) breaking out Insurance Costs per employee by the type of coverage. The auditor should use this breakdown in conjunction with the delegate agency's records to calculate the actual Insurance Cost to be allocated to the delegate agency. The information should be included as a Footnote to the Financial Statements, in the final audit report.

- .37 The auditor should determine on a test basis that the employees of the delegate agency listed as being covered by Central Insurance are current eligible employees. Exceptions should be reported in the Compliance Report. The auditor should also comment in the Compliance Report if the delegate agency is not receiving coverage in the following areas or if the indicated insurance coverage is obviously inadequate.

Blue Cross	Accident, Death and Dismemberment
Blue Shield	HIP
Blue Cross Dental	GHI
Special Accidents	Workers' Compensation
New York State Disability	General Liability
Major Medical	Property Insurance
Life Fatality Policy	

Inter-agency Inter- Program and Inter- Year Loans

- .38 Inter-agency, Inter- Program, and Inter- Year Loans are prohibited. If the delegate agency has any Loans outstanding as of the audit date or made and liquidated loans during the audit period; the auditor should ascertain the nature and purpose of the transaction(s) and include an explanation of the transaction(s) in the Compliance Report.
- .39 Disclosures of the loans in the Financial Statements alone is not sufficient. In addition, even if the loan is made and paid back during the audit period, it should be disclosed in the Compliance Report.

Compliance with Quantified Program Objectives

- .40 As part of the audit process, the auditor is expected to perform testing of compliance. Prior to performing any requirements under this section, the auditor should be aware of the ACIPA and GAO Yellow Book requirements as previously discussed in Section 1200.17 to 1200.21 (see pages 17-18 of this Guide).

Many contracts contain specific program objectives designed to be achieved with the specific contract funds. For example: the Number of Days and Hours a center is required to operate, the Number of Meals to be served each day to a specific Number of Children, the specific Number of Children to be cared for in Day Care. Where such contracts contain specific clauses requiring Compliance with indicated measures of performance in terms of Statistical Programs Goals, the auditor must determine and report whether and to what extent the delegate agency has complied

with such specific contractual performance requirements. Most delegate agencies are required to report whether these Quantified Objectives are being achieved. Where the auditor is required to report specific programs results, he or she should also report the specific program objectives as identified in the delegate agency's contract (see Schedule E of the Illustrative Audit Report in Section 1540 (see page 87 for guidance). Specific requirements, as defined by the constituent agency, are discussed in Section 2000 (see pages 126 to 146).

- .41 The auditor should, as part of the audit, review contracts and perform audit procedures to ascertain that the specific quantified program objectives have been achieved. They should also examine the Internal Controls over the data gathered by the agency relative to program objectives to ensure that required reports submitted to ACS concerning program objectives are supported by the books and records including any schedules, and are fairly presented. However, even if reports concerning program objectives are not contractually required, the auditor should make sufficient observations and examinations of data to ascertain whether the Quantified Program Objectives are being met. Audit Working Papers should reflect the scope of such examination. In most programs, the Quantified Program Objectives are disclosed in a Schedule to the Financial Statements, including any departures from the stated objectives.
- .42 In addition to performing the Compliance Testing referred to above. The auditor is also required to perform the general Compliance Testing based upon the Office of Management and Budget (OMB) Compliance supplement for Single Audits of State and Local Governments. The following are those requirements that involve significant national policy issues and for which failure to comply could have a material impact on a delegate agency's Financial Statements.

Political Activity

Compliance Requirement Federal funds cannot be used for partisan political activity of any kind by any person or organization involved in the administration of Federally-assisted programs. (Hatch Act (5 USC 1501-1508) and Intergovernmental personnel Act of 1970 as amended by Title VI of Civil Services Reform Act (PL 95-454 Section 4728)

Suggested Audit Procedures:

Test the expenditure and related records for indications of lobbying activities, publications or other materials intended for influencing legislation or similar type costs.

Test the Personnel and Payroll records and identify persons whose responsibilities or activities include political activity.

Test whether the above costs, if any exist, are charged directly or indirectly, to Federally-assisted programs.

Davis-Bacon Act

Compliance Requirement: When require by federal grant program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction projects financed by Federal assistance must be paid wages not less than those established for the locality of the project by the Secretary of Labor. {40 Stat 1494, March 3, 1921, Chap. 411.40 USC 276A-276A-5}

Suggested Audit Procedures:

Identify the programs involving construction activities.

Review selected construction contracts and subcontracts and determine whether they contain provisions requiring the payment of "prevailing" wages.

Review the delegate agency's system for monitoring applicable contractors and subcontractors with respect to payment of prevailing wages and evaluate for adequacy. (1)

Review the monitoring system for contracts for selected programs and determine whether there is adherence to the prescribed procedures.

Civil Rights

Compliance Requirement: No person shall, on the grounds of Race, Color, National Origin, Age or Handicap, be excluded from participation in or be subject to discrimination in any program or activity funded, in whole or in part, by Federal funds.

Discrimination on the basis of Sex or Religion is also prohibited in some Federal programs (Age- 42 USC 6101 et seq.; race -42 USC 2000d; handicap- 29 USC 794.)

(1) For purposes of this supplement, adequacy can be interpreted as providing a reasonable assurance that the system or procedures, if followed, will result in the intended event or action occurring.

Suggested Audit Procedures:

Determine whether the delegate agency has a formal policy of Non-Discrimination.

For delegate agency's employing 15 or more persons, ascertain whether a person has been designated to oversee Civil Rights Compliance.

Ascertain from the grant agreement whether any of the Programs contain prohibitions against discrimination on the basis of Sex or Religion.

Ascertain the number of complaints, if any, filed with Federal, State and or Local agencies responsible for ensuring Non-Discrimination in government programs during the fiscal year, the status of unresolved complaints or investigations and the actions taken on resolved complaints or completed investigations.

Obtain representation and/or attorney letters to determine if any civil rights suits have been adjudicated or are pending.

Cash Management

Compliance requirement Delegate agency financial management systems shall include procedures to minimize the time elapsed between the transfer of funds from the ACS or other government funding sources and the disbursement of funds by the delegate agency.

Advances made by primary recipients to secondary recipients shall conform substantially to the same standards of timing and amount as apply to advances by federal agencies to primary recipient organizations. (OMB Circular A-102, Attachment G; Intergovernmental Cooperation Act of 1968, PL 90-577 (sec. 403) as amended, by PL 96-470, Title I, Sec. 101(b)).

Suggested Audit Procedures

Review the delegate agency's cash forecasting process and evaluate for adequacy.

Review the delegate agency's system for requesting funds and evaluate whether it is adequate to keep cash disbursements limited to the delegate agency's immediate needs.

Determine dates and amounts for selected advances, draw downs and other recipients of funds and compare to the dates the funds were disbursed and/or checks were presented to the banks for payments.

Evaluate the size of the balances in relation to the program's needs.

Where Quantified Program Objectives are not being met; the auditor should inquire to ascertain whether changes to contracts are commensurate, with the attained program objectives. If the auditor determines that costs incurred are unreasonable in applying the prudent person test to the attained objectives, costs may be questioned and/or the issues may be disclosed in the Compliance Report, depending upon the circumstances and materiality of the amounts involved. In addition, for significant Non-Compliance with quantitative requirements, the auditor should consider rendering a Qualified Opinion on the Financial Statements.

Minutes

- .43 The Minutes of the agency's Board of Directors should be reviewed to ascertain if there are any significant Contingent Liabilities and/or litigation and that the Board has approved the contract between the delegate and constituent agencies and authorization to make other major expenditures. Significant Contingent Liabilities and/or litigation should be disclosed in the notes to the Financial Statements. If minutes are not maintained or available, this situation should be disclosed in the Compliance Report.

Representation Letter

- .44 The auditor should obtain a written Representation Letter from the delegate agency, signed by the Executive Director and Chief Financial Officer.

In accordance with SAS NO. 63 the auditor should obtain representations from delegate agency management which covers appropriate compliance with laws and regulations. As normally required by SAS No. 19, the auditor would ordinarily include in those representations "violations or possible violations of laws or regulations whose effects should be considered for disclosure in the Financial Statements or as a basis for recording a Loss Contingency." In audits in accordance with SAS No.63, the auditor should consider obtaining additional representations from delegate agency management acknowledging that:

- Management is responsible for the entity's compliance with laws and regulations applicable to it.
- Management has identified and disclosed to the auditor all laws and regulations that have a direct and material effect on the determination of Financial Statement amounts.

The delegate agency management's refusal to furnish written representations constitutes a limitation on the Scope of the audit sufficient to require a Qualified Opinion or a Disclaimer of Opinion on Compliance. Further, the auditor should consider the effects of management's refusal on his or her ability to rely on other management representations.

An example of a Representation Letter is contained in section 1210 (see page 34 to 36).

Questioned Costs

- .45 One result of the audit is Questioned Costs, which represent those expenditures that are not in accordance with the Contract Agreement, ACS Head Start Audit Guidelines, or OMB Circular A-87. The auditor should develop an understanding

of the requirements of these documents. The criteria (not all-inclusive) for Questioned Costs include the following:

Specific Disallowable Costs These costs are specifically identified by law, rule, or regulation, or the terms and conditions of the contract as Disallowable. Items usually included in this category are

- Bad Debts
- Most Advertising Costs, except those related to the recruitment of staff;
- Contingencies'
- Cost of options to employees to purchase stock of the delegate agency
- Entertainment
- Bond Costs, unless specifically required
- Fines and Penalties
- Contributions and donations
- Interest
- Dividend Payment to Stockholders, Partners, or Sole Proprietors of the delegate agency
- Under-Recovery of Costs from prior or other grants; and
- Organization Costs

Note: A discussion of the above Unallowable Costs is contained in OMB A-87 and the Comptrollers Directive 2.

Unreasonable Costs Costs not specifically Disallowable or Insupportable, but not reflecting an action a prudent person would have taken under the conditions that existed at the time the decision incur the cost was made, are Unreasonable Costs. Some examples:

- Purchasing a six months supply of materials during the last month of the grant.
- Renting luxury automobiles rather than lower-priced models; and purchasing expensive equipment needed for a short period instead of leasing it.

Allocability When allocating costs, the costs should be assigned to a particular object or class of program according to the benefits received or some other equitable relationship. Indirect Costs allocated to the contract should;

- Be incurred specifically for the contract;
- Be necessary to the overall operations of the delegate agency even if a direct relationship to any particular class or program cannot be shown;
- Benefit the contract and other programs;
- Be distributed in reasonable proportion to the benefits received; not be matched to another funded program; and
- Not be allocated in total to the grant when the costs also directly benefit other grant programs

(For additional information see Section 1300, pages 40 to 42

Requirements for Testing Cost Allocation Charges and/or Systems)

Documentation The documentation should support all costs, as appropriate. Typically, deficient documentation occurs because of a lack of:

- Time and Attendance Records, Invoices, etc.;
- Written contracts with Consultants and/or Sub-contractors;
- Proper authorization to incur costs or to disburse monies; and/or
- Support for the recording of Non-Federal Contributions (e.g., Contributed Services).

Unapproved Costs Costs that did not receive prior approval, were over the approved budget, or were not included in the approved budget are Unapproved Costs. Some examples of Unapproved Costs are:

- Costs incurred before or after the grant period; and

- In some cases, the purchase of Capital Assets.

Conformity with GAAP The delegate agency should prepare its Financial Statements in accordance with Generally Accepted Accounting Principles. The accounting principles should be consistently applied.

Propriety The Federal Government and City of New York do not want to support violations of public policy. The following costs are considered Unallowable:

- Kickbacks
- Fines and Penalties resulting from violations of the law; and
- Personal injury compensation.

.46 In addition to the above, the auditor should:

- Determine other costs that, in the auditor's judgment, were incurred with the intention to defraud ACS.
- The auditor should limit the reporting of Questioned Costs to those items that actually resulted from the audit tests. The auditor should only question costs that exceed the Annual Approved Budget. The auditor should not question costs that exceed the Interim Budget for reporting purposes; the auditor should not project Questioned Costs to the population under audit.
- For every period under audit, whether Semi-Annual or Annual, the audit report should contain a Schedule of Questioned Costs, which contains a detailed explanation of the Questioned Costs.

Note. Bank Charges, excluding any Interest, are allowable expenditures and should not be questioned if properly supported. The total amount of Bank Charges for the period under audit should be disclosed in the Footnotes.

.47 All Questioned Costs should be reported in the audit report.

Follow-Up on Prior-Period Audit Reports

.48 The auditor should review the Prior-Period Audit Report and determine the status of implementation and/or correction of prior Compliance and Internal Control Structure reported Findings. Resolution of all Prior-Period Audit Findings should be determined and commented on in the appropriate Compliance or Internal Control Structure Section of the Audit Report.

If previously missing documentation is subsequently provided by the delegate agency, this fact should be stated in the Audit Report for Findings corrected, the auditor should state in the Finding and that the situation was corrected. For Prior-Period Findings not corrected or partially implemented, the auditor should repeat the Finding in the Current Period Report on Compliance or Internal Control Structure and any progress toward implementation. In addition, Unresolved Prior-Period Findings should be specifically identified in the Prior-

Period Section of the Reports on Compliance and Internal Control Structure. Therefore, the Reports on Compliance and Internal Control Structure should be divided into Current-Period' and 'Prior-Period' Comments.

- .49 The resolution of Prior-Period Questioned Costs should be determined and reported upon in the 'Prior-Period' Follow-Up Section of the Compliance Report.
- .50 Any Unresolved Prior-Year Questioned Costs should be recorded as a Receivable from the Contractor and as 'Due to ACS' unless such Questioned Costs were recorded as "Due to ACS" in the Prior-Year, such as when expenditures in that year exceeded the total budget in the Footnote on 'Due to ACS" the amount attributable to Questioned Costs should be disclosed separately from Cash and Inventory.

Prior-Year Balances

- .51 The auditor should ascertain that the Prior-Year Adjusting Entries (per the DAES) were properly recorded by the delegate agency in their books "of account and that beginning balances are in agreement with the Prior-Year Audit Report.
- .52 The auditor should ascertain and substantiate the details of all Prior-Year Balances as of the beginning and end of the Current Period.
- .53 The auditor should audit changes in Prior-Year balances during the Current Period and vouch for any additions or deletions to the supporting documentation. Prior-year Balances remaining at the end of the Current Year must be included in the Current-Year Financial Statement and are covered by the Auditor's Opinion on the Financial Statements.
- .54 The collectibility of Prior-Year Accounts Receivable should be reviewed and the efforts to collect the determined. A lack of effort by the delegate agency to collect significant Receivable should be disclosed in the Compliance Report.
- 55 The auditor should determine the status of the previous-year Accounts Payable as of the end of the Current-Year Fieldwork. Previous-year Accounts Payable, which is still outstanding as of the end of the Current-Year Fieldwork, should be indicated in the Accounts Payable Footnote.

Reporting Errors, Irregularities and Illegal Acts

- .56 Government Auditing Standards (Yellow Book), Chapter 4 (under Errors, Irregularities and Illegal Acts) states that in determining Compliance with Laws and Regulations:
- The auditor should design audit steps and procedures to provide reasonable assurance of Detecting Errors, Irregularities and Illegal Acts that could have a direct and material effect on the Financial Statement amounts.
 - The auditor should also be aware of the possibility of illegal acts that could have an indirect and material effect on the financial statements
- .57 In fulfilling the above requirements relating to Errors, Irregularities and Illegal Acts, the auditor should follow the guidance contained in SAS NO. 53 “The auditor’s responsibility to detect and report errors and irregularities” and SAS NO.54 “Illegal Acts by Clients.” If the auditor becomes aware of illegal acts or other irregularities, prompt notice shall be given to ACS.
- .58 Illegal Acts and Irregularities include such matters as Conflicts of Interest, Falsification of Records or Reports and Misappropriation of Funds or Other Assets. Government Auditing Standards indicate that while illegal acts or indications of such acts need not be included in the required audit reports; they may be covered in a separate written report. The auditor should not release information or reports containing information of such acts or reports with references that such acts were omitted from reports without consulting with appropriate legal counsel

Excessive Compensation

- .59 The auditor should be aware of instances of Excessive Compensation being charged by the delegate agency. The testing of Excessive Compensation should not only be performed on costs directly charged to ACS, but also encompass the testing of Allocation of Compensation among various programs when the delegate agency utilizes a Cost Allocation Plan. If in using the prudent person test, the auditor concludes that the compensation appears excessive and if, after discussion with the delegate agency, the auditor is not convinced that it is not excessive, the excessive costs should be questioned and the circumstances disclosed in the Compliance Report.

Competitive Bidding

- .60 The auditor should ascertain that the Competitive Bidding Requirements, as required by the contract, are being followed by the delegate agency. These

requirements usually apply to major purchases of Equipment or Rentals and major Food Supplies.

Contract Cross-Check Questionnaire

- .61 In order to verify the accuracy of the information actually submittal to ACS, the Contract Cross-Check Questionnaire must be obtained, for the Final Audit only, from the Office of Intergovernmental Relations/ Contracts even though a copy may be available from the delegate agency.
- .62 The auditor should obtain the Cross-Check Questionnaire completed by the delegate agency by sending a request to the following address

Director, Board of Estimate Liaison Unit
Office of Intergovernment Relations/Contracts Room 200
250 Church Street New York, NY 10013

A self-addressed stamped envelope should be included with the request.

- .63 Once the questionnaire is obtained, the auditor should verify, to the extent possible, the accuracy or the information contained in the questionnaire except for Question 6, Percentage of Time Paid Under The Above Contracts; Question 7, Percentage of Time Paid Under The Above Contract; Question 8, Percentage of Space Paid by The Above Contract; Question 9, All Parts; and Question 11, All Parts.
- .64 Appendixes C for example of the Contract Cross-Check Questionnaire.

Registration and Reporting Requirements

- .65 Ascertain, whether the agency had complied with Federal and State reporting requirements contained in Appendix F (as well as the Payroll Reports in Paragraph 200.13). Such Federal and State Reporting requirements include the timely filing of the following forms; where appropriate (see Appendix E):
- Federal Form 990, Return of Organization Exempt From Income Tax;
 - New York State Form 500, Annual Report- Charitable Organization;
 - NYCF-1, Registration of Charitable Trust or Charitable Corporation;
 - and
 - NYCF2A, Annual Report of Charitable Organization.

In addition, the auditor should determine if the delegate agency is in compliance with the New York State Abandoned Property Law with regard to undelivered disbursement checks (payroll as well as all other checks).

Any exceptions to the above should be reported in the Auditor's Report On Compliance.

Additional Audit Considerations

- .66 While no Quantifiable or Objective Standards are being provided, the auditor is requested to use the prudent person test in reviewing transactions or conditions existing at the delegate agency. Examples of Unreasonable Audit Considerations;
- Obvious Under Utilization of Lease Space;
 - Excessive Inventory build-up without reasonable explanation;
 - Excessive Idle Equipment;
 - Condition of Inventory and/or Storage Facility in obvious poor condition;
 - Obvious Health and Safety Hazards; and
 - Obvious purchases at the end of the year to use up the budget.

Third- Party Income

- .67 The auditor should determine whether the delegate agency is receiving fees from Third Parties to whom they are providing services. These instances arise when a client's income level exceeds a ceiling amount, and the client is assessed a fee for receiving the service. The auditor is required to determine whether the delegate agency has a system of recording and collecting such income and has made the appropriate efforts to collect outstanding fees. The auditor should report any exceptions to these requirements in the Report on Compliance and obtain appropriate delegate agency written representation regarding disclosure of all Third-Party Income. (See Representation Letter, Section 1210, pages 32 to 34))

Section 1210
Representation Letter

- .01 The auditor should obtain a written Representation Letter from the management of the delegate agency for all audits, the following example representation letter should be used as a guide:

(Letterhead of Delegate Agency)

(To Independent Auditor)
(Address)

(Date of Auditor's Report)

Dear Sirs:

In connection with your audit of the Statement of Assets and Liabilities of (name of Delegate Agency) as of January 31, 200X, and the related Statement of Revenues and Expenditures-Budget and Actual for the year then ended was made for the purpose of expressing an opinion as to whether the Financial Statements present fairly the financial position and results of operations of (name of Delegate Agency) in conformity with Generally Accepted Accounting Principles, we confirm, to the best of our knowledge and belief, the following representations were made to your audit.

1. We have made available to you:
 - A. Financial report and related data, including all sources of funding relating to our contract with ACS
 - B. All Minutes of the meetings of Directors and Committee of Directors or summaries of actions of recent meeting for which Minutes have not been prepared;
 - C. All records used as to our compliance with our contract with ACS and Applicable, Federal, State, and City laws and regulations; and
 - D. Most current ACS Program's Budget
2. There have been no:
 - A. Irregularities involving management of employees who have significant roles in the Internal Control Structure;
 - B. Irregularities involving other employees that could have a material effect on the Financial Statements;

- C. Communication from regulatory agencies and Federal, State, or City oversight or funding sources concerning Non-Compliance with, or Deficiencies in, financial reporting practices that could have a material effect on the Financial Statements; or
 - D. Violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the Financial Statements or as a basis for recording a Loss Contingency.
3. There are no:
- A. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with Statements of Financial Accounting Standards No.5;
 - B. Material liabilities or gain or loss contingencies that are required to be accrued or disclose by Statement of Financial Accounting Standards No.5;
 - C. Material transactions that have not been properly recorded in the accounting records underlying the Financial Statement; or
 - D. Events that have occurred subsequent to the Balance Sheet Date that would require adjustment to or disclosure in the Financial Statements
4. Provision, when material, has been made for;
- A. Loss to be sustained as a result of Non Compliance with our contract with ACS or any Federal, State, or City oversight funding agencies;
 - B. Loss to be sustained as a result of purchases or purchase commitments for Inventory quantities in excess of normal requirements or at prices in excess of the prevailing market prices and
 - C. Loss to be sustained as a result of the reduction of excess or obsolete Inventories to their estimated Net Realizable Value.
5. We have no plans or intentions that may materially affect the Carrying Value or Classification of Assets and Liabilities.
6. We have complied with all ACS, Federal, State, or City law, regulation, or contractual requirements.
7. We have complied with all aspects of contractual agreements that would have a material effect on the Financial Statements in the event of Non-Compliance.
8. The following have been properly recorded or disclosed in the Financial Statements;

- A. Related-Party Transactions and Related-Amounts Receivables or Payable, including Sales, Purchase, Loans, Transfer, Leasing Arrangements, and Guarantees;
 - B. Significant common ownership or management control relationships requiring disclosure;
 - C. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and lines of credit or similar arrangements; and
 - D. Agreements to repurchase assets previously sold;
- 9 No events have occurred subsequent to the Balance Sheet data that would require adjustment to, or disclosure in, the Financial Statements.

Further we acknowledge that we are responsible for the fair presentation in the Financial Statements of Financial Position and resulted of operations in conformity with Generally Accepted Accounting Principles and for compliance with Federal, State, and City law.

Very truly yours,

(Name of Delegate Agency)

Chief Financial Officer
Executive Director

Section 1300
Requirements for Testing Cost Allocation
Charges and/Or Systems

- .01 Cost Allocation Plans are used by Sponsors of delegate agencies to allocate incurred delegate-agency costs that benefit more than one delegate agency and that are not directly assignable to one delegate agency (also called “Indirect Costs”). Not all sponsors charge Indirect Costs to their delegate agencies. The auditor should determine if the delegate agency charges Indirect Costs to the contract. If Indirect Costs are not charged to the program being audited, no audit procedures for Indirect Costs are required.
- .02 However, if Indirect Costs are charges to the program being audited, then the auditor has some unique responsibilities concerning the reasonableness of the Indirect Costs. The main purpose in allocating Indirect Costs is to ensure that the programs bear their fair share of costs compared to other programs. There is no rule for classifying items as either Direct or Indirect. The method in which items are capture by and accounted for in the accounting system dictates if an item will be a Direct charge or an Indirect Cost, not necessarily the type of cost. Therefore, what may be a Direct Cost for one program may be an Indirect Cost for another program. A Cost Allocation Plan should ensure that:
- Its costs are consistent and logical;
 - It includes only costs incurred for a common or joint purpose that benefit more than one delegate agency and are not readily assignable to one delegate agency;
 - The delegate agencies bear their fair share of costs compared to other delegate agencies;
 - All costs of the delegate agency are properly identifiable; and
 - Indirect Costs are not charged as both Direct and Indirect costs.
- .03 See Appendix D, "ACS Policy- Purchase of Services Vendors Cost Allocation Plan" for ACS policy guidelines on Cost Allocation Plans.
- .04 In addition, the criteria used to determine the allowability of Indirect Costs is the same as those used for Direct Costs. That is, the costs must be in accordance with the terms of the Grant Agreement and ACS Head Start Audit Guidelines, including OMB A-87.

- .05 A Cost Allocation Plan usually consists of
- Description of the nature and extent of services provided and their relevance to the programs;
 - Items of Expenditure to be included;
 - Methods of Distributing the Costs; an
 - Description of Allocation Bases.
- .06 The auditor is responsible for auditing the Indirect Costs charged to the program under audit. The extent of the audit procedures depends on how material the Indirect Costs are to the total costs of the delegate agency. At a minimum, the auditor must review the amount and methods in which Indirect Costs are charged to the program. If an Indirect Cost Allocation Plan is used by the Sponsor of the delegate agency, it is not acceptable for the auditor to disclaim an Opinion on the Financial Statements for not attempting to audit the Indirect Costs; the auditor must perform procedures to become satisfied as to the total costs accumulated in the pool as well as to the reasonableness of the Indirect Costs charged to the delegate agency under audit
- .07 If the sponsor of the delegate agency has a Cost Allocation Plan, it will either be an approved plan or a non approved plan. The audit procedures required for each type of plan are different
- .08 Where the Cost Allocation Plan was negotiated, approved, and/or audited by a federal agency, the auditor should determine whether:
- The rate(s) and base(s) used in computing charges for Indirect Costs conform with the provisions of the approved plan;
 - The costs accumulated in the pool are in conformity with the approved plan;
 - The costs charge to pool are not also charged directly to the delegate agency,
 - All components of the plan approved by a federal agency are applicable to the delegate agency under audit.

- .09 Where the Cost Allocation Plan was not negotiated, approved and/or audited by a federal agency, the auditor should review the plan and determine whether:
- Indirect Costs are allocable and allowable, in conformity with the guidelines the contract award and OMB A-87, and were incurred in the period being audited;
 - Costs are treated consistently as either Direct or Indirect Costs and are not duplicated between the two classifications;
 - Indirect Costs are distributed on a basis that takes into account the proportion of goods and/or services received by the applicable cost objective and, such, is up-to-date.
 - Indirect Costs are applied consistently under Generally Accepted Accounting Principles and can be reconciled to the books and records; and
 - The same Indirect Cost amounts were not charged to different delegate agencies.
- .10 In either instance, the auditor, on a test basis, should determine that the same costs are not being charged to different programs or contracts.
- .11 Regardless of the method used to allocate Indirect Costs, the amount specified in the contract is the maximum amount allowed under the contract and should be properly supported. Indirect Costs charged to programs in excess of the supportable amounts should be questioned, even if the total amount charged to the program is less than or equal to the maximum Indirect Cost rate in the contract is the maximum allowed, not a guaranteed minimum.
- .12 In cases where a Cost Allocation Plan does not exist, problems usually arise because of the distribution of Indirect Costs on a judgmental basis (e.g., estimates of usage, use of approximations). In these cases, the auditor would normally question the Allowability of the Indirect Costs.
- .13 Where the delegate agency occupies common facilities with other purchase service contractors doing business with the City, the auditor should cite this fact in his or her report, citing the Specific Name of the Program, the Program I.D. Number, the Description of the Program, its Purpose, and the Relationship with the delegate agency, which may involve cooperative exchanges such as Employees, Facilities, Equipment, Supplies, and Costs.
- .14 For additional guidance on auditing Cost Allocations the auditor should refer to "Guidelines for Audits of Federal Awards to Nonprofit Organizations" issued by the U.S. Department of Health and Human Services (April 1989).

Section 1400

Delegate Agency Expense Summary (DAES)

- .01 On a monthly basis, the delegate agencies submit a Child Agency Payment System (CAPS) to the office from their books and records and supported by the General Ledger. There will be at least twelve CAPS submitted for the year. The CAPS are used as the basis to advance monies to the delegate agencies. In most cases, if a CAPS is not submitted, an advance will not be made.
- .02 ACS Fiscal Operations totals the CAPS submitted for the year and prepare via a computer application, a summary of the CAPS along with the current approved budget. This summary is printed and called the mechanical Delegate Agency Expense Summary (DAES). The mechanical DAES is sent directly to the auditors by ACS Head Start Internal Audit Unit (HS1AU). It is the auditor's responsibility to complete the DAES starting with the information provided on the DAES. The DAES must agree with all relevant statements and schedules in the audit report and must reconcile with the DAES: The figures provided in Columns A and B of the form should not be changed. The following discussion will explain how differences should be handled.
- .03 See the Illustrative Financial Statements for copies of DAES as they will be prepared by ACS Fiscal Operations for completion by the auditor.
- .04 There are two types of DAES; Type-1, Regular; Type-2, In-Kind. Head Start programs require an In-Kind DAES. Due to the budget categories being different for each program, there will be a unique regular DAES for each program.

Instructions for Completion of the DAES

- .05 The number of CAPS used to prepare the DAES will be printed at the top center of the report. It is possible that all CAPS submitted might not be included in the DAES. Therefore, the initial step is to determine that all CAPS submitted by the delegate agency are included on the DAES.
- .06 The budget categories listed on the DAES should agree with the budget categories per the contract award, including modifications. Do not cross out any budget category that is listed. If additional categories exist, list them after the last category contained in the DAES
- .07 The Approved Budget (Column A) will be provided on the mechanical DAES. This is the budget as reported to ACS Fiscal Operations. If this budget differs from the budget provided by the delegate agency, the initial step is to ascertain that all modifications have been included.

If a difference still exists after considering all Budget Modifications, contact the Head Start Budget Department and explain the situation (i.e., budget per DAES does not agree to budget per delegate agency). After the difference is resolved, the natures of the discrepancies are explained in the auditor adjustment's summary that follows the DAES. Do not change the budget figures shown on the DAES. The budget figures shown in the Financial Statements will be the correct budget figures.

- .08 The Agency-Reported Expenses (Column B) will also be provided on the mechanical DAES and represent the summary of the CAPS. If discrepancies exist between the General Ledgers, before auditor adjustments and reclassifications, and the DAES, do not change the DAES. The adjustments will be shown in Column C.
- .09 Auditor's Adjustments (Column C) includes two types of adjustments; (1) Adjustments as a result of the audit, excluding accrual entries, that will be posted to the books and records of the delegate agency, and (2) Adjustments as a result of discrepancies between the expenses per the DAES (Column b) and the books and records of the delegate agency (as reported through the CAPS). Both types of entries are posted as one total to the appropriate budget categories. The detail explanation of the summary of entries posted to each budget line is provided in the Auditor Adjustment's Summary that follows the DAES. The entries should be identified as to type of adjustment. See the example Auditor Adjustment's Summary in Paragraph 1400.15, page 40, for illustration.
- .10 Expenditures Per Audit (Column I) is the result of adding/subtracting Columns B and C.
- .11 Accrued Expenses Per Audit (Column E) includes the Accrual Adjustments required to convert the Cash-Basis records to the Accrual Basis. Again, the entries are posted as one total to the appropriate budget categories.
- .12 Total Expenses Per Audit (Column F) is the result of adding/subtracting Columns D and E. this total should agree with the amounts shown in the Financial Statements.
- .13 Questioned Costs (Column G) includes the Question Costs from the Current-Period Audit and is posted by budget category. The explanation of Questioned Costs is provided in a Schedule to the Financial Statements, "Detailed Explanation of Current and Cumulative. Questioned Costs."
- .14 The causes of major auditor adjustments contained in Column C, such as Omissions, Over-or Understatement of Expenditures, Arithmetical Errors, or Misclassifications should be discussed in the Report on Internal Control Structure.
- .15 An example of the explanation of Auditor's Adjustments Per DAES follows:

DELEGATE AGENCY PROGRAM
 BUDGET I D #
 Explanation of Auditor's Adjustment Per DAES
 For the Year Ended January 31, 20XX

Auditor's Adjustments:

Salaries Paid (Budget Category):

To-Reverse Payroll Checks Paid Twice	(\$X, XXX)
To Accrue Payroll At End Of Year From January 28, 200X to January 31, 200X	XXX
To Record CAPS Number 13 Not Shown in DAES Total Adjustments To Salaries Paid	\$X, XXX

Consultants (Budget Category):

To Correct Invoice Recorded In Error	(\$X, XX)
To record CAPS Number 13 Not Shown in DAES Total Adjustments To Consultants	\$X, XXX

Explanation of Budget Discrepancies:

1. The Budget Modification dated 3/15/20XX totaling \$XX, XXX affecting the Salaries-Paid (Budget Category), was not reflected in DAES.
2. It was determined that the DAES contained a \$X, XX Key punch error in the Equipment (Budget Category)

Section 1500

FULL SCOPE AUDIT REPORTING REQUIREMENTS

- .01 The audit report is divided into two sections. The first section is the Financial Section and contains the Independent Auditor's Report, Financial Statements, Footnotes, and Schedules. The second section is the Compliance and Internal Control Structure Section and contains the Introduction and Exit Conference information along with the Independent Auditor's Report on Compliance and the Independent Auditor's Report on Internal Control Structure. The overall organization of the audit report is as follows:
- **Financial Section:**
 - Independent Auditors Report on the Financial Statements:
 - Financial Statements, including Footnotes and
 - Supplementary Schedules.
 - **Compliance and Internal Control Section:**
 - Introduction and Exit Conference information;
 - Independent Auditor's Report on Compliance ;and
 - Independent Auditor's Report on Internal Control structure.
- .02 This overall organization format should always be followed. The three auditor's reports should be prepared on stationery indicating the Auditor's Firm Name and Address.
- .03 The auditor is required to prepare an audit report at the end of the respective audit period. Audits shall be performed annually, semi-annually or for such other period as may be set forth in Exhibit I to the CPA Firm Bid submission, in keeping with the fiscal year for each such program, and reports shall be due within 60 days after (I) the end of each semi-annual period, or (ii) such other period as specified. Final reports shall be due 60 days after (I) the end of the Fiscal Year, or, (ii) such other period as a specified.
- .04 In addition, for common Sponsor Audits (i.e., audits of ACS delegate agencies administered by one Sponsor), the auditor is required to prepare and submit a Summary Report on the Internal Control Structure and Compliance, which is administered by that Sponsor. If there are no common deficiencies, the summary reports must contain a positive statement to that effect. This requirement is in addition to the reports on the Internal Control Structure and Compliance submitted with the required audit reports on each delegate agency.

Note: Payment for the Final Audit Report of common Sponsor Audits will be withheld by ACS or delegate agency until an acceptable summary report containing comments that are common to all the delegate agencies delegate agencies had been received by ACS.

Section 1510

Independent Auditor's Reports

- .01 The auditor will issue three auditor's reports as a result of the audit. The reports include:
- Independent Auditor's Report on the Financial Statements;
 - Independent Auditor's Report on Compliance; and
 - Independent Auditor's Report on Internal Control Structure.

Independent Auditor's Report on the Financial Statements:

- 02 The auditor's report is prepared in accordance with Generally Accepted Auditing Standards, particularly SAS NO. 58, Reports on Audited Financial Statements in Auditor-Submitted Documents"
- .03 Depending on the program, the auditor will be reporting on either the:
- Statement of Assets, Liabilities and Fund Balance; and
 - Statement of Revenues, Expenditures and Changes in Fund Balance.
- Or
- Statement of Assets, Liabilities and Fund Balance; and
 - Statement of Revenues, Expenditures and Changes in Fund Balance
- .04 The difference being the present or absence of a Fund Balance. Most programs do not have Fund Balances. The Illustrative Auditor's Report should be modified accordingly to reflect the statements being issued.
- .05 Where the auditors, under certain circumstances, performed a Full Scope Interim Audit, the Independent Auditor's Report needs to be modified. For the annual audit, the auditor report (on the same financial statement) on the seven or six months and the year ended. The auditor's report should be modified accordingly to reflect the period being reported upon.
- .06 Refer to Note 2 in the Illustrative Auditor's Report (Section 1540.06) as to the need for adding our Explanatory Paragraph regarding the uncertainty of the allowability of Questioned Costs.

- .07 The Third paragraph of the Auditor's Report relates to the additional information (Schedules) contained in the Financial Section of the audit report. The Third paragraph in the Illustrative Auditor's Report was prepared in accordance with SAS NO.29. for additional information concerning the auditor's reporting responsibility, refer to SAS NO.29.
- .08 In addition to the Schedules, the DAES (when required) is also referred to in the Third paragraph. Therefore, by signing the Auditor's Report, the auditor is attesting to the DAES in relation to the Financial Statements as whole.

Independent Auditor's Report on Compliance

- .09 The Auditor's Report on Compliance is to be prepared in accordance with SAS NO.63, Compliance Auditing Applicable to Government Entities and Other Recipients of Governmental Financial Assistance. As required by SAS NO.63 and government auditing standards, Paragraph 6 on page 5-2:

"The auditors should prepare a written report on their tests of Compliance with applicable laws and regulations. This report, which may be included in either the report on the financial audit or a separate report, should contain a statement of positive assurance on those items which were tested for Compliance and negative assurance on those items not tested. It should include all material instances of Non-Compliance, and all instances of indications of illegal acts which could result-in, criminal prosecution."

- .10 The Auditor's Report on Compliance is based upon the results of procedures performed in accordance with Sections 1200.17 to 1200.21 (see pages 15 to 17) and Sections 1200.39 to 1200.42 (see pages 20 to 24).
- .11 As specified in Paragraph 21 of SAS N. 63, basis elements of a report expressing positive and negative Assurance on Compliance are
- a. A statement that the auditor has audited the Financial Statements and a reference to the Auditor's Report on the Financial Statements.
 - b. A statement that the audit was conducted in accordance with Generally Accepted Auditing Standards and with Government Auditing Standards issued by the Comptroller General of the United states.
 - c. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

- d. A statement that management is responsible for compliance with laws, regulations, contracts and grants.
 - e. A statement that, as part of obtaining reasonable assurance about whether the Financial Statements are free of material misstatement, the auditor performed tests of Compliance with certain provisions of law, regulations, contracts and grants.
 - f. A statement that the auditor's objective was not to provide an opinion on overall Compliance, with such provisions.
 - g. A statement of positive assurance that the results of the tests indicate that, with respect to the items tested, the entity complied, in all material respects, with the provisions of laws, regulations, contracts and grants referred to in Item E above
 - h. A statement of negative assurance that, which respect to items not tested, nothing came to the auditor's attention that caused him or her to believe that the entity had not complied, in all material respects, with the provisions of laws, regulations, contracts and grants referred to in Item E, above.
 - i. A statement that the report is intended for the information of the audit committee, management, and specific legislative or regulatory bodies, but that this restriction is not intended to limit the distribution of the report, if a matter of public record.
 - j. The manual or printed signature of the Auditor's Firm
 - k. The date of the Auditor's Report.
- .12 For purposes of reporting Non-Compliance Paragraphs 7 and 8 on page 5-3 of Government Auditing Standards state:
- "All material instances of Non-Compliance related to the entity's Financial Statements or the program, award, claim, fund, or group of accounts being audited should be reported. Further, several instances of Non-Compliance that separately may not be material, but that cumulatively could have a material effect on the Financial Statements of results of the financial related audit, should be reported. All instances of illegal acts that could result in the audited entity, or an officer or employee of the audited entity, being subject to criminal - prosecution should also be reported."
 - "Other non-material instances of Non-Compliance need not be disclosed in the compliance report but should be reported in a separate communication to the audited entity, preferably in writing. Such instances of Non-Compliance when communicated in a Management Letter to top management should be referred to in the Report On Compliance. All communications should be documented in the "Working Papers."(1)

SAS NO. 63 require the auditor to report all material instances of Non-Compliance. In addition, SAS NO. 63 defines material instances of Non-Compliance as "failures to follow requirements, or violations of prohibitions contained in statutes, regulations, contracts or grants that cause the auditor to conclude that the aggregation of the misstatements (that is, the auditor's best estimate of the total misstatements) resulting from those failures or violations is material to the Financial Statements.

(1) ACS will require the auditor's report to include all instances of Non-Compliance

In addition, SAS NO. 63, in Paragraph 27, discuss the issuance of a separate report of Nonmaterial instances of Non-Compliance. For purposes of ACS both Material and Nonmaterial instances of Non-Compliance must be disclosed and reported upon in the Independent Auditor's Report on Compliance, and not issued in a separate letter. The Compliance Report should separately identify all instances of Non-Compliance.

.13 If instances of Non-Compliance are noted, a detailed description of the Non-Compliance is to be included in the report. The description of the Non-Compliance should include the following components as required by Government Auditing Standards (Yellow Book):

- The report should include a discussion of the Audit Findings, and where applicable, the Auditor's Conclusions.
- The report should present the Finding and Finding elements developed in response to the Audit Objective. Sufficient, competent and relevant information about finding should be included to promote adequate understanding, of the matters reported and, to provide convincing, but fair presentations in proper perspective. Appropriate background information that readers need to understand the Finding should also be included.
- Audit Findings have often been regarded as containing the elements of Criteria, Condition and Effect, plus Cause when problems are found. However, the elements needed for a complete Finding depend entirely on the objectives of the audit. Thus, a Finding or set of Findings is complete to the extent that the Audit Objectives are satisfied and the report clearly relates those objectives to the Finding's elements.
- The report should contain Conclusions when called for by the Audit Objectives. Conclusions should be specified and not left to be inferred by readers. The report should not be written on the basis that a bare recital of facts makes the conclusions inescapable.
- The report should include the causes of problem areas noted in the audit and recommendations for actions to correct the problem areas and to improve operations.

- The report should include a discussion of causes when problems are reported and the audit objectives call for development of the reasons for the problems. In some audits, the objective may be limited to identifying whether a problem exists with no requirement for identifying the cause, even if a problem is found.
 - Identifying the underlying cause of problems found is helpful in making constructive recommendations to achieve corrective action. When auditors know why something happened, they can more readily determine what action is needed to prevent its recurrence.
 - Because problems can result from a number of plausible factors, auditors need to clearly demonstrate and explain with applicable evidence and reasoning the link between the problem and the factor or factors they identified as the cause. In some cases, the auditors may need to describe how they isolated the stated cause or causes from other plausible factors. This is not a requirement for proof of a casual relationship, but a requirement for reasonable persuasive argument.
 - The report should contain recommendations when the potential for significant improvement in operations and performance is substantiated by the reported Finding and Recommendations are called for by the Audit Objectives. Recommendations to effect compliance with laws and regulations and improve Internal Controls should also be made within significant instances of Non-Compliance are noted or significant weaknesses in controls are found.
 - Reports which contain constructive recommendations can encourage improvement in the conduct of government programs and activities. Recommendations are most constructive: when they are directed at resolving the cause of identified problems, is action oriented and specific, and are addressed to parties that need to act Recommendations also need to be feasible and cost-effective.
- .14 In reporting Noncompliance, the auditors should place their Findings in proper perspective. The extent of Non-Compliance should be related to the number of cases examined to give the reader a basis for judging the prevalence of Non-Compliance.
- .15 In addition, the auditor provides negative assurance that the reports (i.e., CAPS) submitted to ACS during the year are supported by the accounting records of the delegate agency. The Compliance Report should indicate that:
- Quarterly Tax Returns, including 941's, State, City and Unemployment returns have been filed., and
 - The Minutes of the Board of Director's meeting were reviewed.

Independent Auditor's Report on Internal Control Structure

- .16 The Auditor's Report on Internal Control Structure is prepared in accordance with Generally Accepted Auditing Standards, particularly SAS NO. 60, SAS NO. 63 and the reporting requirements of the Yellow Book (Government Auditing Standards). Only reportable conditions as defined by SAS NO 60, "Communication of Internal Control Structure related matters noted in an audit," are required to be include in this report. However, ACS strongly urges that all reportable conditions be discussed in the report.
- .17 The Yellow Book, third supplemental reporting standard, relating to the Report on Internal Controls, requires the following:
- The auditors should prepare a written report on their understanding of the entity's Internal Control Structure and the assessment of Control Risk made as part of a Financial Statement Audit, or a Financial Related Audit. This report may be included in either the auditor's report on the Financial Audit or a separate report. The Auditor's Report should include as a minimum: (1) the Scope of the auditor's work in obtaining an understanding of the Internal Control Structure and in assessing the Control Risk, (2) the entity's significant Internal Controls or Control Structure include the controls established to ensure compliance with laws and regulations that have a material impact on the Financial Statements, and (3) the Reportable Conditions, including the identification of Material Weaknesses, identified as a result of the auditor's work in understanding and assessing the Control Risk.
- .18 SAS NO. 63, consistent with the above Yellow Book requirement, states that the auditor should communicate any reportable conditions noted during the audit. The Yellow Book requires the auditor to issue a report on Internal Control Structure even if there are no reportable conditions. This requirement was prohibited by Paragraph 17 of SAS NO. 60. Under SAS NO. 63, the auditor can now issue a report where no reportable conditions were noted during an audit. The language to be utilized is specified in Section 1540, Illustrative Independent Auditor's Report on the Internal Control Structure, Paragraph 7.
- .19 The auditor may report the weaknesses that are, not considered Reportable Conditions in a SAS NO. 60 report. However, if such weaknesses are included in the report, the comments "should be clearly distinguished" from the Comments on Reportable Conditions. Therefore, the Comment Section must be divided into two sections to distinguish the weaknesses identified as Reportable Conditions, one section reporting on Material Weaknesses and the other section reporting Non-material Weaknesses. (See Section 154031-Note 6 to the Illustrative Report on the Internal Control Structure for guidance in structuring the Comment Section in the report.)

- .20 As specified in Paragraph 37 of SAS NO. 63, when the auditor has noted Reportable Conditions in a Financial Statement Audit conducted in accordance with Government Auditing Standards, the Auditor's Report on Internal Control Structure should contain:
- a. A statement that the auditor had audited the Financial Statements and a reference to the Auditor's Report on the Financial Statements.
 - b. A statement that the audit was conducted in accordance with Generally Accepted Auditing Standards and with Government Auditing Standards issued by the Comptroller General of the United States.
 - c. A statement that, in planning and performing the audit of the Financial Statements, the auditor considered the entity's Internal Control Structure in order to determine the auditing procedures for purposes of expressing an opinion on the Financial Statements and not to provide assurance on the Internal Control Structure.
 - d. A statement that the establishment and maintenance of the Internal Control Structure is the responsibilities of management.
 - e. An explanation of the broad objective and inherent limitations of any Internal Control Structure.
 - f. A description of the entity's significant Internal Control Structure Policies and Procedures categories considered as part of the auditor's understanding of the structure.
 - g. A description of the Scope of the auditor's work stating that the auditor obtained an understanding of the design of relevant policies and procedures and whether those policies and procedures have been placed in operation, and assessed Control Risk.
 - h. The definition of Reportable Conditions.
 - i. A description of the Reportable Conditions noted.
 - j. The definition of Material Weakness.

- k. A statement about whether the auditor believes any of the Reportable Conditions described in the report are Material Weaknesses, and if they are, identifies the Material Weaknesses noted.
 - l. If applicable, a statement that other matters involving the Internal Control Structure and its operation were communicated to management in a separate letter.
 - m. A statement that the report is intended for the information of the audit committee, management and specific legislative or regulatory bodies, but that this restriction is not intended to limit the distribution of the report, if a matter of public record.
- .21 As specified above in Item F, the Fifth paragraph includes the information on "Controls" as required in the Yellow Book and SAS NO 63. Information in that Paragraph should include:
- Identification of Controls Categories (systems);
 - Identification of Control Categories not assessed; and
 - Description of R
 - Reason(s) for Excluding Any Control Category from the Assessment.

See Note 3 to the Illustrative Independent Auditor's Report on Internal Control Structure for guidance in proving the above information.

- .22 The auditor, when reporting on conditions which warrant disclosure in the report on Internal Control Structure, is to follow the following requirements of Government Auditing Standards (Yellow Book):
- The report should include a full discussion of the audit Findings and where applicable, the auditor's conclusions.
 - The report should present the Finding and Finding elements developed in response to the Audit Objective. Sufficient, competent and relevant information about the Finding should be included to promote adequate understanding of the matters reported and to provide convincing, but fair presentations in proper perspective. Appropriate background information that readers need; to understand the Findings should also be included.

- Audit Findings have often been regarded as containing the elements of Criteria, Condition and Effect, plus Cause when problems are found. However, the elements needed for a complete Finding depend entirely on the objectives of the audit. Thus, a Finding or set of Findings is complete to the extent that the Audit Objectives are satisfied and the report clearly relates those objectives to the Finding's elements.
- The report should contain Conclusions when called for by the Audit Objectives. Conclusions should be specified and not left to be inferred by readers. The report should not be written on the basis that a bare recital of facts makes the conclusions inescapable.
- The report should include the cause of problem areas noted in the audit and recommendations for actions to correct the problem areas, and to improve operations.
 - The report should include a discussion of cause when problems are reported and the audit objectives call for development of the reasons for the problems. In some audits, the objective may be limited to identifying whether a problem exists without a requirement for identifying the cause, even if a problem is found.
 - Identifying the underlying cause of problems found is helpful in making constructive recommendations to achieve corrective action. When auditors know why something happened, they can more readily determine what action is needed to prevent its recurrence.
 - Because problems can result from a number of plausible factors, auditors need to clearly demonstrate and explain with applicable evidence and reasoning the link between the problem and the factor or factors they identified as the cause. In some cases, the auditors may need to describe how they isolated the stated cause or cause from other plausible factors. This is not a requirement for proof of a casual relationship, but a requirement for reasonable persuasive argument.
 - The report should contain Recommendations when the potential for significant improvements in operations and performance is substantiated by the reported Finding. Recommendations are called for by the Audit Objectives, and Recommendations that affect Compliance with laws and regulations and improve Internal Controls should also be made when significant instances of Non-Compliance are noted or significant weakness in controls are found.

- Reports which contain constructive Recommendations can encourage improvements in the conduct of government programs and activities. Recommendations are most constructive when they are: Directed at resolving the cause of identified problems, action oriented and specific, and addressed to parties that need to act. Recommendations also need to be feasible and cost-effective.
- .23 One of the requirements of the Comptroller's Directive # 5 and ACS is that, on a surprise basis, the auditor is to perform a Payroll Distribution and Floor Check. There must be a positive assertion in the report on Internal Control Structure concerning the performance of the above procedures, including the date performed. If the procedures cannot be performed, the reason(s) that the procedures could not be performed should be stated in the report along with a description of the alternative procedures actually performed. This assurance is provided in the Comment Section of the report on Internal Control Structure. Note 7 (Section 1540, page 109) to the Illustrative Independent Auditor's Report on Internal Control Structure provides alternate wording.
- .24 Refer to SAS NO. 63 for further guidance in preparing the previously discussed auditor's report on Internal Control Structure.

Section 1520

Audited Financial Statements

- .01 The following is a discussion of the general Financial Statements that are applicable to all programs. They are to be modified for each program as directed in Section 2000 (see pages 118 -139) containing specific Audit Requirements & because they are general Financial Statements, they may contain accounts, account titles, and footnotes that are not appropriate to the particular delegate agency under audit, in which case do not include them in the audit report. Only include the information appropriate to the delegate agency under audit.
- .02 The basic Financial Statements include the following:
- Statement of Assets and Liabilities;
 - Statement of Revenues and Expenditures- Budget and Actual;
 - Footnotes to Financial Statements; and
 - Supplementary Schedules.
- .03 A discussion of each element follows.

Statement of Assets and Liabilities

- .04 If the delegate agency has a Fund Balance, the title to the Financial Statement would be Statement of Assets, Liabilities, and Fund Balance. See the following discussion on Revenue recognition for additional information concerning Fund Balance.
- .05 Some delegate agencies require more than one column for different funding sources of the delegate agency. They include, for example:
- Head Start and Day Care;
 - Board of Education Pre-Kindergarten; and
 - Early Head Start
- .06 See the appropriate specific Audit Requirement Section for required information.
- .07 The delegate agency should maintain separate records for each program, thus allowing for the preparation of this statement. If separate records are not maintained, a "best efforts" attempt should be made to include a statement. The statement should include, at a minimum, Cash, Accounts Receivable, Due From/To ACS, and Accounts Payable.
- .08 The Account Titles should include reference to the Footnotes.
- .09 The statement should be referenced to the Footnotes.

Statement of Revenues and Expenditures- Budget and Actual

- .10 If the, delegate agency has a Fund Balance, the title to the Financial Statement would be - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual. See the following discussion on revenues recognition for additional information concerning Fund Balance.
- .11 Some delegate agencies require more than one column for different funding sources of the delegate agency. They include, for example:
- Head Start and Day Care;
 - Board of Education Pre-Kindergarten; and
 - Early Head Start
- .12 See the appropriate specific Audit Requirement Section for required information.
- .13 The independent auditor, prior to the preparation of any Statement of Revenues and Expenditures-Budget and Actual, should refer to any special requirements for the ACS program being reported upon as specified in Sections 2000 (see pages 126 to 146).
- .14 Where a Full Scope Interim Audit is performed, then the Year-End Statement of Revenues and Expenditures includes both the final period figures and the Year-To Date figures. When a Full Scope Audit is performed only for the Year-End Audit, this dual breakdown is not necessary. See the example of a Year-End Financial Statement in the Illustrative Financial Statements.
- .15 The Revenues and Expenditures Account Classifications are unique for each delegate agency. See the appropriate 'Specific Audit Requirement Section for the captions applicable for each delegate agency.
- .16 Unless specified in the program description, the contracts provided by ACS are expenditure driven. That is, the delegate agency "earns" revenue only to the extent of expenditures. Therefore the Excess of Advances over Expenditures, including Accruals, is a Liability to ACS and not a Fund Balance. Likewise, the Excess of Expenditures over Advances, up to the contract amount, is a Receivable from ACS and not a Fund Deficit. For the excess should be reported as 'Due from Sponsor" and not "Due from ACS." For these reasons, in most delegate agencies, the Excess/Deficiency Line will be zero, and the program will not have a Fund Balance from current operations.

For those delegate agencies that have a Fund Balance, the Fund Balance results from one (or both) of the following: (1) Revenue sources outside ACS providing support to the program** and /or (2) Fund Balance carried forward from previous ACS grants (before ACS required that excess funds be returned). Fund Balance (as well as the Assets and Liabilities) related to prior programs should be reported in the Statement of Assets and Liabilities.

Activity related to Prior-Year Contracts is not reported in the Current- Year Operating Statement, but reflected in the Prior-Year Asset and Liability accounts with details of any transactions provided in the analysis of prior-year balances contained in the Footnotes.

- .17 Often revenues are not budgeted. If no budget is available (prepared) for revenues, insert a dash or zero in the Approved Budget and Variance Columns.
- .18 The Approved Budget Column is the latest annual budget after all modifications. (See related discussion in Contract Agency Summary Voucher (DAES) Section 1400, pages 43 to 45).

****For certain delegate agencies, the contract agreement require that outside sources of revenues be spent before ACS funds. Therefore, any remaining funds are Due To ACS and do not represent a Fund Balance.**

- .19 The Actual Column should agree to Column F, "Total Expenses Per Audit, on the DAES.
- .20 Questioned Costs are reported by budget line category and supported by a Schedule of "Detailed Explanation of Current and Cumulative Questioned Costs." (See discussion of the Schedule in Paragraph 1524.44, page 61).
- .21 The Variance Column represents a difference between the Approved Budget Column and the Actual Column.
- .22 The statement should be referenced to the Footnotes.
- .23 Per APB Opinion NO. 19, "Reporting Changes in Financial Position" and FASB 95"Statement of Cash Flows," a Statement Of Changes In Financial Position or of Cash Flows is only required for "Profit-Oriented Business Entities."
Since the programs of ACS are not Profit-Oriented, a Statement Of Changes In Financial Position or Cash Flows is not required by GAAP.

Footnotes:

- .24 The following Footnotes should be included to the extent that they are applicable for the delegate agency under audit.
- .25 **Summary of Significant Accounting Policies.** The first Footnote should be the Summary of Significant Accounting Policies. The discussion of significant accounting policies should include the following:
 - **Equity.** This description is not included if the delegate agency has a Fund Balance.

- **Capital Expenditures.** The reporting of Capital additions as expenditures is in accordance with Generally Accepted Accounting Principles for governmental units. Therefore, a qualification of the auditor's opinion for this accounting treatment is not justified.
 - **Basis of Accounting.** The Financial Statements are prepared on the Modified Accrual Basis of Accounting, as interpreted for governmental units. The description, of major revenue sources contained in the Illustrative Financial Statements should be modified to reflect the actual significant revenues of the delegate agency.
 - **Inventory.** If significant amounts of Inventory are on hand as of the period ended, the amounts should be determined and included in the Statement of Assets and Liabilities.
 - **Vacation and Sick Leave.** The description in the Illustrative Financial Statements should be modified to reflect the actual policies of the delegate agency. This accounting policy is acceptable under Generally Acceptable Accounting Principles for governments. The estimated amount of unaccrued Vacation and Sick Leave is to be disclosed in the Footnote. (Note: this disclosure is required for only the Year-End Final Audit.)
- .26 **Cash.** The Cash Footnote includes an itemized, detailed list of the bank accounts segregated by Program Year. The Name and Address of the Bank along with the Account Number should be listed for each account. The list should also include each Petty Cash Fund maintained for the delegate agency along with a description of the purpose of each fund. For bank accounts, which are Interest Bearing; the interest earned on each account during the audit period should be disclosed by account in the Footnotes. The Footnote should also indicate whether the cash amounts include the Interest Earned to date. In addition, the Footnote should contain a List of all Checks Outstanding for all bank accounts for six months or longer. The auditor, to the extent possible, should determine and disclose the reasons for significant checks outstanding for extended periods. If the list is excessive in length, the list can be provided in a Schedule to the Financial Statements.
- .27 **Receivables.** The Receivables Footnotes contain an analysis of each individual Receivable Balance contained in the Statement of Assets and Liabilities. Each Receivable Balance should be divided into Current-Year and Prior-Year Programs. Receivables, the description should identify the program year to which the Receivable relates. For both Current and Prior-Year Program Receivables and appropriate description of the nature of the Receivable is to be provided. The analysis of the "Due From ACS" balance consists of Beginning Balance, Advances, Expenditures, Adjustments, and Ending Balance. See the Illustrative Financial Statements for examples.

- .28 **Prepaid Expenses.** The Prepaid Expenses Footnote contains an analysis of the Prepaid Expenses balance shown in the Statement of Assets and Liabilities. The analysis should contain a description of the nature and purpose of each individual Prepaid Expense.
- .29 **Security Deposits.** The Security Deposits Footnote contains an analysis of the Security Deposits balance shown in the Statement of Assets and Liabilities. The analysis should contain a description of the Nature and Purpose of each Security Deposit. Interest Accrued, but not collected, should be recognized in the Current Period with the total amount accrued on the deposit disclosed in the Footnote.
- .30 **Accounts Payable.** The Accounts Payable Footnote is to include an itemized detailed list of each Accounts Payable containing the Vendor' Name, Date when Subsequently Paid, the Amount that was Payable as of the period ended, and the Amount Unliquidated as of the end of field work. The City of New York requires that Accounts Payable be liquidated within 90 days after the Balance Sheet date. If the auditor becomes aware that the 90 days rule is being violated, the auditor should disclose the violation in the Compliance Report. Accounts Payable should be divided between Current-Year Program and Prior-Year Program.
- .31 **Accrued Expenditures.** The Accrued Expenditures Footnote contains an analysis of the Accrued Expenditures balance shown in the Statement of Assets and Liabilities. The analysis should contain a description of the Nature and Purpose of each Accrued Expenditure and should be divided between Current-Year Program and Prior-Year Program. Payroll Taxes Withheld and Accrued Payroll Taxes should be shown separately.
- .32 **Other Payables.** The Other Payables Footnote contains an analysis of each "Due To" account balance contained in the Statement of Assets and Liabilities. Each "Due To" balance should be divided into Current-Year and Prior-Year Programs. For Prior -Year Program "Due To," the description should identify the Program Year for which the "Due To" relates. For both Current- and Prior -Year "Due To's," an appropriate description of the Nature of the "Due To" is to be provided. The analysis of the "Due to ACS" balance consists of Beginning Balance, Advances, Expenditures, Adjustments, and Ending Balance. The Ending Balance Due to ACS should be divided into its components (i.e., the amount represented by Cash and the amount represented by Inventory). See the Illustrative Financial Statements for examples.

Most programs prohibit Loans between delegate agencies. Therefore, in most cases, Loans disclosed in the Financial Statements will result in an Audit Finding in the Compliance Report and/or Questioned Costs.

- .33 **Lease Commitments.** The Lease Commitments Footnote should be prepared in accordance with SFAS NO.13 and the related amendments and interpretations. At a minimum, the following should be disclosed for Operating Leases:
- Future Minimum Rental Payments required as of the date of the latest Statement of Assets and Liabilities, in the aggregate and for each of the five

succeeding fiscal years.

- The total of Minimum Rentals to be received in the future under non cancelable Sub-leases as of the date of the latest Statement of Assets and Liabilities.
- Rental Expense, with separate amounts for minimum rentals, Contingent Rentals, and Sub-lease Rentals.

.34 A general description of the Leasing Arrangements, at a minimum, should include:

- The Basis on which Contingent Rental Payments are determined;
- The existence and Terms of Renewal or Purchase Options and Escalation Clauses;
- Restrictions imposed by Lease Agreements;
- The existence of Related Parties in the Lease Transactions (see Footnote on Related-Party transactions); and
- Costs per Square Foot and/or Rental. Rate as described in the Lease Agreement.

.35 **Contractual Agreements.** The Contractual Agreements Footnote contains a description of the significant Contractual Agreements that pertain to the delegate agency under audit (excluding those leases included in the Lease Footnote). Between the Lease Footnote and this Footnote, no significant leases and/or contracts should be omitted, regardless of the duration of the agreements. See disclosure requirements contained in Illustrative Financial Statements. Typical Contractual Agreements include:

- Month-to-Month Leases for Postage Meters, Copy Machines, Equipment Rental, and Maintenance Contracts; and
- Other contracts not included in the Lease Footnote.

.36 **Cost Allocation.** The Cost Allocation Footnote contains a description of the Cost Allocation Plan, the Basis of Allocation, Composition of the Cost Pool, and the Total of Indirect Costs charged to the delegate agency.

.37 **Contingent Liabilities.** The Footnote contains a description of all Contingent Liabilities affecting the delegate agency. Typical Contingent Liabilities include:

- Litigation employment related (EEOC), Worker's Compensation, and Liability; and
- Compliance with Contract Terms.

- .38 The disclosure of the litigation should include a description of the litigation, including parties involved, and an estimate of the possible loss or range of loss, or else state that such an estimate could not be made.
- .39 Refer to SAS NO. 12, "Inquiry of a Client's Lawyer concerning Litigation Claims, and Assessments" and SFAS NO. 5, "Accounting for Contingencies" for additional guidance.
- .40 **Related Parties.** The Related Parties Footnote should contain a description of all significant Related-Party transactions. See disclosure requirement contained in the Illustrative Financial Statements. Typical Related Parties include:
- Loans to Officers, Directors, and Employees or their family members of the delegate agency; and
 - Services obtained from a business that is controlled by Officers, Directors, or their family members of the delegate agency (e.g., such as rent).
- .41 Refer to SAS NO. 6, "Related Party Transactions" and SFAS NO. 57, "Related Parties" for additional guidance.
- .42 **Possible Additional Footnote Disclosure.** In addition to the above suggested footnotes, any infrequent or unusual items and/or misleading should be disclosed in the footnotes. Some examples include:
- Subsequent Events;
 - Going Concern;
 - Liquidity; and
 - In-Kind
 - Cost Allocation
 - Program and Administrative Allocation
 - Payroll Taxes

Supplementary Schedules

- .43 Supplementary Schedules consist of two types (1) The Standard Schedules usually required for all delegate agencies, unless specifically excluded in Section 2000 and (2) Schedules unique to each program as required in Section 2000 (see page 126-145). The following standard schedules should be included.
- .44 Detailed Explanation of Questioned Costs. If there is no Current or Cumulative Questioned Costs, the Schedule is included with the word "None" placed in the body of the Schedule.
- Breakdown of Questioned Costs by budget line category.

- A Detailed Explanation of the Questioned Costs, including; Why The Cost Is Questioned, the Amount being Questioned, and Details of /to Questioned Cost (such as Vendor Name, Authority or Regulation for Questioning the Cost, and How the Questioned Costs Were Determined). Note: In no circumstance should the Questioned Costs be projected to the entire population and the projected costs included in the report as Questioned Costs.

Note: Unresolved Question Costs from the previous audit contract should not be shown in this Schedule but should be included in the Statement of Assets and Liabilities as a "Due to ACS." The Footnotes should contain an explanation of what constitutes the balance. The Footnotes should clearly describe the portion of the "Due to ACS" attributable to Questioned Costs.

.45 **Schedule of Consultants.** Include the following information:

- Name of Consultant;
- Service Provided;
- Basis for Fees Charged (Hourly, Daily, Contract, Retainer, etc.); and
- Amount Paid and Accrued in the Financial Statements.

.46 **Schedule of Fixed Assets Inventory.** Include the following information (provided only for the annual year-end examination):

- Description of Item; Date Purchased; and
- Cost. At a minimum, costs must be included for items acquired during the Current Audit Period and for Prior Acquisition Costs as reflected in Prior Audit Reports.

.47 **List of Checks Outstanding for Six Months or Longer.** Include the following information:

- Payee;
- Check Number; and
- Amount

48 **Miscellaneous Expenditures in Excess of \$100.** Include the following information:

- Vendor;
- Nature of Expenditure;
- Date of Check; and
- Amount

.49 **Schedule of Quantitative Program Results.** Include the following information:

- Where applicable, Percentage of Administrative Expenditures to Total Expenditure; and

- Information required by Section 2000 (see page 126 to 147), as applicable, of the Audit Guide.
- .50 **The DAES.** See discussion on the preparation of the DAES in Section 1400 (see pages 43 to 45).

Section 1530

Other Information

- .01 In addition to the preceding requirements, the audit report should contain:
- A Title Page
 - A Table of Contents; and
 - A Compliance and Internal Structure Section.
- .02 The audit report should contain the following information on the cover or Title Page:
- Name of Delegate, Agency;
 - Address and Phone Number of the Delegate Agency;
 - Program under audit;
 - Delegate Agency's Budget I.D. Number;
 - Grant Number, where applicable;
 - Beginning and Ending Dates of the Budget Period;
 - Starting and Ending Dates of the Audit;
 - Name of Audit Firm;
 - Lot Number of the Audit Contract.
- .03 See the Illustrative Audit Report for example. Where Compliance Section 2000 require the auditor to include a Schedule of Quantified Program Results, the auditor should report not only actual program results, but also the program results objectives specified in the delegate agencies' contract with ACS.

Table of Contents

- .04 The audit report should contain a Table of Contents, including Page Numbers, and the information as presented in the Illustrative Audit Report.

Compliance and Internal Control Structure

- .05 The Compliance and Internal Structure Section, in addition to the Auditor's Reports on Internal Control Structure and Compliance (previously discussed), contains an Introduction and Exit Conference Section. The Introduction Section contains; a Brief Description of the Purpose of the Program, Which Organization Determines Eligibility; and Funding Information, including Any Matching Requirements, and the breakdown between Federal, State and City funding.
- .06 The Exit Conference Section includes a list of all individuals who attended the Exit Conference, their Titles, the Date the meeting was held, and the Location. The organizations that should attend the Exit Conference, in addition to the delegate agency, should include the Audit Firm and Representative(s) from the constituent agency.
- .07 All parties should be given at least five (5) days notice of the meeting prior to the day of the Exit Conference. If, after being contacted, the representative from the constituent agency does not attend the meeting, the report should include a statement that the representative was contacted but did not attend.
- .08 A Draft of the Audit Report should be received by the delegate agency at least three (3) working days before the Exit Conference.
- .09 Any disputes or disagreements pertaining to the Audit Report that cannot be resolved to all parties', satisfaction should be noted and described in the Exit Conference Section of the Audit Report.
- .10 Audit Reports will not be accepted in other formats other than the format cited in the February 1, 2010 ACS Head Start Audit Guidelines.

Section 1540

Illustrative Audit Report

The following Illustrative Auditor's Report demonstrates most of the reporting requirements described in the previous mentioned requirements.

DELEGATE AGENCY PROGRAM

ADDRESS _____

PHONE NUMBER _____

BUDGET ID# XXXXX

GRANT NUMBER

FINANCIAL STATEMENTS

BUDGET PERIOD – FEBRUARY 1, 200X TO JANUARY 31, 200X

AUDIT PERIOD – FEBRUARY 1, 200X TO JANUARY 31, 200X

STARTING DATE OF AUDIT – February 1, 200X

ENDING DATE OF AUDIT – March 28, 200X

Audit Firm

**DELEGATE AGENCY
BUDGET I.D. # XXXX
TABLE OF CONTENTS**

<u>Financial Section</u>	Page
Independent Auditor's Report	
Statement of Assets and Liabilities	
Statement of Revenues and Expenditures – Actual	
Statement of Revenues and Expenditures – Budget and Actual	
Notes to Financial Statements	
Supplementary Schedules	
(List of Schedules)	
<u>Compliance and Internal Control Structure Section</u>	
Introduction	
Exit Conference	
Independent Auditor's Report on Compliance	
Independent Auditor's Report on Internal Control Structure	

DELEGATE AGENCY

BUDGET I.D. # XXXX

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Administration for Children's Services
Office of Audit Services
150 William Street, 9th Floor
New York, NY 10038
Attention: Director

Independent Auditor's Report

We have audited the Statement of Assets and Liabilities of the (Delegate Agency Program) (Budget I.D. # _____) as of January 31, 200X and the related Statement of Revenues and Expenditures - Budget and Actual for the year then ended. These Financial Statements are the responsibility of the (Delegate Agency Program) management. Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Generally Accepted Auditing Standards, Government Auditing Standards, issued by the Comptroller General of the United States, and the ACS Head Start Audit Guidelines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement. An audit in accordance with these standards includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation. We believe that our audit provides a reasonable basis for our opinion. (1)

In our opinion, the aforementioned Financial Statements present fairly, in all material respects, the Assets and Liabilities of the (Delegate Agency Program) (Budget I.D. # _____) as of January 31, 200X, and its revenues and expenditures of the year then ended in conformity with Generally Accepted Accounting Principles. (2)

Our audit was made for the purpose of forming an opinion on the Financial Statements referred to above taken as a whole. The Schedules listed in the accompanying Table of Contents are presented for purposes of additional analysis and are not a required part of the Financial Statements of the (Delegate Agency Program). Such information has been subjected to the auditing procedures applied in the audit of the Financial Statements and, in our opinion, is fairly presented in all material respects in relation to the Financial Statements taken as a whole.

Signed (XYZ Firm)

March 30, 200X

Notes:

- 1) If the Financial Statements do not present the entire operations of the Not-For-Profit Corporation of which the delegate agency program is a part, the following paragraph should be added after the Scope Paragraph:

The Financial Statements present only the delegate agency program and are not intended to present fairly the Financial Position and results of operations of the (Name of Not-For-Profit Corporation or Sponsor) in conformity with Generally Accepted Accounting Principles.

- 2) An Explanatory Paragraph should be added to the Opinion for the presence of Current-Year Questioned Costs that, in the opinion of the auditor, have a material impact on the financial operations of the Delegate Agency Program.

If the report is to be modified because of an uncertainty, it should be modified with the addition of a paragraph following the Opinion Paragraph similar to the following:

The Statement of Revenues and Expenditures – Budget and Actual contains costs in the amounts of \$XX, XXX that are questioned as to their allowability under the grant agreement. The final determination as to whether such costs are allowable will be made by the ACS constituent agency and applicable federal agency. The ultimate outcome of this determination cannot presently be determined. Accordingly, no provision for any disallowance has been made in the accompanying Financial Statements.

**DELEGATE AGENCY
STATEMENT OF ASSETS AND LIABILITIES
January 21, 200X**

	TITLE-V	CACFP Funds	Total
<u>Assets</u>			
Cash (Note 2)			
Cash in Banks	\$	\$	\$
Petty Cash			
Receivables (Note 3)			
Due from ACS			
Due from other governmental agencies or units			
Due from other programs/agencies			
Accounts Receivable			
Prepaid Expenses (Note 4)			
Security Deposits (Note 5)			
Due from Title V Funds			
	\$ _____	\$ _____	\$ _____
	=	=	=
<u>Liabilities</u>			
Accounts Payable (Note 6)	\$	\$	\$
Accrued Expenditures (Note 7)			
Accrued Payroll Taxes (Note 7)			
Payroll Taxes Withheld (Note 7)			
Due to ACS (Note 8)			
Due to other governmental agencies or units (Note 8)			
Due to other programs/agencies (Note 8)			
	\$ _____	\$ _____	\$ _____
	=	=	=
Commitments and Contingent Liabilities (Notes 9,10, 11, and 12)			
	\$ _____	\$ _____	\$ _____
	=	=	=

See notes to Financial Statements

CORPORATION NAME
HEAD START PROGRAM NAME
BUDGET ID: BUDGET ID NUMBER
STATEMENT OF REVENUES AND EXPENDITURES - ACTUAL
FOR THE YEAR ENDED JANUARY 31, XXXX

		HEAD START TITLE V	HEAD START TITLE V/VPK	FOOD PROGRAM	IN-KIND CONTRIBUTION	PARTNERSHIP
REVENUE:						
Head Start	\$	-	\$	-	\$	-
Food Program	-	-	-	-	-	-
In-Kind	-	-	-	-	-	-
Partnership	-	-	-	-	-	-
Other Income	-	-	-	-	-	-
TOTAL REVENUE	\$	-	\$ 0	\$	-	\$

		HEAD START TITLE V	HEAD START TITLE V/VPK	FOOD PROGRAM	IN-KIND CONTRIBUTION	PARTNERSHIP
EXPENDITURES:						
Personnel	\$	-	\$	-	\$	-
FICA	-	-	-	-	-	-
Unemployment Insurance	-	-	-	-	-	-
Welfare Fund	-	-	-	-	-	-
Consumable Supplies	-	-	-	-	-	-
Travel	-	-	-	-	-	-
Consultants (Schedule B)	-	-	-	-	-	-
Food	-	-	-	-	-	-
Equipment Purchase (Schedule C)	-	-	-	-	-	-
Renovation	-	-	-	-	-	-
Other Cost	-	-	-	-	-	-
Total Expenditures before Food Service Support	\$	-	\$ 0	\$	-	\$

Excess (Deficiency) of Food Program Funds	\$	-	\$	-	\$	-
Transfer of Excess (Deficiency) to Title V	-	-	-	-	-	-
Total Expenditures	\$	-	\$	-	\$	-
Excess (Deficiency) of Revenue over (under) Expenditures	\$	-	\$	-	\$	-

**DELEGATE AGENCY
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
YEAR ENDED January 31, 200X**

	Annual Approved <u>Budget</u>	<u>Actual</u>	Variance - Favorable <u>Unfavorable</u>	Questioned <u>Cost</u>
<u>REVENUES:</u>				
TITLE V	\$	\$	\$	\$
CACFP				
In-Kind Contribution				
Other Income (Specify)				
TOTAL REVENUES	\$ _____	\$ _____	\$ _____	\$ _____
<u>EXPENDITURES</u>				
<u>PA 22/26:</u>				
Personnel				\$
Facilities				
Consultants				
Consumable Supplies				
Equipment				
Travel (Out of Town)				
Other (attached schedule)				
Total PA 22/26	\$ _____	\$ _____	\$ _____	\$ _____
<u>CACFP:</u>				
Personnel				
Fringe Benefits				
Food				
Other				
Total CACFP	\$ _____	\$ _____	\$ _____	\$ _____
<u>In-Kind Contribution:</u>				
Volunteers				
Space Cost				
Total In-Kind Contribution	\$ _____	\$ _____	\$ _____	\$ _____
Total Expenditures	\$ _____	\$ _____	\$ _____	\$ _____
Excess (deficiency) of				
Revenues over (under)				
Expenditures	\$ _____	\$ _____	\$ _____	\$ _____

See Notes to Financial Statements

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS
January 31, 200X**

1) Summary of Significant Accounting Policies

The accounting policies of the agency conform to Generally Accepted Accounting Principles as applicable to governmental units. The following is a summary of the more significant policies:

A. **Equity**

Under the terms of the grant, all monies not spent according to the grant agreement and budget and any tangible assets remaining at the end of the grant period are to be returned to the City of New York. Therefore, the agency does not maintain any equity in the grant and any excess of Assets over Liabilities is shown as Due to the City of New York, Administration for Children's Services.

B. **Capital Expenditures**

Under the terms of the grant agreement and in accordance with Generally Accepted Accounting Principles for government units, purchase of equipment, furniture, leasehold improvements, and other capital items are charged as expenditures as incurred and not capitalized and depreciated over the useful life of the asset.

C. **Basis of Accounting**

The Modified Accrual Basis of accounting is followed by the agency. Under the Modified Accrual Basis of accounting for governmental units, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures other than Vacation and Sick Leave, are recorded when the liability is incurred, if measurable.

In applying the susceptible to accrual concept to grant revenues, the legal and contractual requirements of the individual program is used as guidance. Monies that must be expended on the specific purpose or project before any amounts will be paid to the agency are recognized as revenue based on the expenditures recorded. Client fees and investment earnings are recorded as earned since they are measurable and available.*

D. **Inventory**

Inventory consists of food and/or expendable supplies held for consumption. Inventories are stated at cost on the First-In, First Out basis.

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS
January 31, 200X**

E. Vacation and Sick Leave

Employees are granted Vacation Leave at the rate of one day each month and sick pay at the rate of two days each month and are paid at the employee's salary rate at the time taken or when they leave the agency. However, Vacation Time and Sick Leave not taken should be treated as indicated in the latest Collective Bargaining Contract. No provision for these possible future liabilities has been made in the Balance Sheet. The agency recognizes Vacation and Sick pay as an expenditure at the time it is used during the year.

2. Cash

At January 31, 200X, Cash consisted of:

<u>Cash in Banks</u>	<u>Cash Balance</u>	<u>(1) Interest Earned</u>
<u>Current Programs</u>		
The ABC National Bank Anywhere, New York 10000 Account Number 000-00-0000	\$ X, XXX	\$ XXX
<u>Prior Programs (specify program years)</u>		
The DEF National Bank Anywhere, New York 10000 Account Number 000-00-0000	\$ <u>X, XXX</u> \$ <u>X, XXX</u>	<u>\$ XXX</u>
<u>Petty Cash</u>		
(Specify name and balance of each Petty Cash Fund)	\$ <u>XXX</u>	

Bank charges aggregating \$XXX were incurred during the period and are reflected in the Office Supplies Financial Statement caption.

(1) Includes Interest earned to date.

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS (Cont'd)
January 31, 200X**

The following is a list of checks outstanding for a period of six months or longer.

<u>Check Number</u>	<u>Amount</u>	<u>Payee</u>
---------------------	---------------	--------------

Note: If this list is excessive in length, the list can be provided as a Schedule to The Financial Statements using the above format.

3. **Receivables:**

Due From / To ACS consists of:

Current-Year program:

Funds available:

Cash received from ACS

\$ (XX, XXX)

Other Revenues (1)

(XX, XXX)

Expenditures (including accruals)

XX, XXX

Adjustments (provide explanation)

X, XXX

Due From / To AC

\$ X, XXX

Prior-Year programs:

Beginning balance

\$ XX, XXX

Cash Received

(XX, XXX)

Expenditures (including Accruals)

XX, XXX

Adjustments (provide Explanation)

XX, XXX

Due From / To AC

\$ XX, XXX

Ending Balance

\$ XX, X XX

Disclosure on Subsequent Receipts:

The Agency subsequently received \$ XX, XXX for P. Y. __.

Inventory (2)

\$ XX, XXX

Due from other Governmental Agencies or units consists of:

Current year C.A.C.F.P. Program, Expenditures Over Revenues

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS (Cont'd)
January 31, 200X**

Due from CACFP:

Due from CACFP as of January 31, 200X, represents unpaid Reimbursements **\$ X, X XX**
This amount was subsequently received.

- (1) Agrees with amounts reported in Statement of Revenues and Expenditures
- (2) Memorandum entry only, where applicable

Prior-Year C.A.C.F.P. Program (Identify Program Year) Expenditures Over Revenues **\$ X, XXX**

Disclosure on subsequent receipts:
This amount was subsequently received. **\$ X, XXX**

Due from Other Programs/Agencies consists of:

Loan to XYZ Program:
(Identify Program Year and the Purpose of Loan) **\$ XX, XXX**

Loan to ADY Agency:
(Identify Program Year and the Purpose of Loan) **\$ XX, XXX**

Disclosure on subsequent receipts:
This amount was subsequently received. **\$ XX, XXX**

Accounts Receivable consists of:

Due From Employees:
(Identify Employee and the Program Year) **\$ XX, XXX**

Disclosure on subsequent receipts:
This amount was subsequently received. **\$ XX, XXX**

4. Prepaid Expenses:

Prepaid Expenses consist of the following at January 31, 200X:

Prepaid Insurance (Specify the Type of Insurance) **\$ XX, XXX**

Prepaid Rent:
(Specify Type of Rent, Total Rent, and Period of Rental) **\$ XX, XXX**
\$ XX, XXX

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS (Cont'd)
January 31, 200X**

5. Security Deposits

Security Deposits consist of the following at January 31, 200X:

Rental Deposit on main office located at 125th Street, including
Accrued Interest of \$ XXX

\$ XX,XXX

6. Accounts Payable:

Accounts Payable consists of the following at January 31, 200X:

<u>Vendor</u>	<u>Date Paid</u>	<u>Amount</u>	<u>Unliquidated Balance</u>
---------------	----------------------	---------------	---------------------------------

Title V

Current-Year Program:

(LIST EACH PAYABLE)

CACFP

(LIST EACH PAYABLE)

Prior-Year Program:

Title V

(LIST EACH PAYABLE)

CACFP

Total Accounts Payable

\$ XX, XXX

\$ XX, XXX

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS (Cont'd)
January 31, 200X**

7. Accrued Expenditures:

Accrued Expenditures consist of the following at January 31, 200X:

Vendor	Date Paid	Amount	Unliquidated Balance
---------------	----------------------	---------------	---------------------------------

Title V

Current-Year Program:

Salaries
Fringe Benefits
COLA
COLA FICA

Prior-Year Program:

Title V

COLA
COLA FICA

Total Accounts Payable

\$ XX, XXX

\$ XX, XXX

8. Other Payables:

Due to ACS consist of:

Current-Year Program:

Funds Available:	
Cash Received from ACS	\$ XX, XXX
Other Revenues (1)	XX, XXX
Expenditures (including Accruals)	(XX, XXX)
Adjustments (provide Explanation)	<u>XX, XXX</u>
Ending Balance	<u>XX, XXX</u>

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS (Cont'd)
January 31, 200X**

Prior-Year Programs:

Beginning Balance	\$ XX, XXX
Cash Received	XX, XXX
Expenditures (Including Accruals)	XX, XXX
Adjustments (Provide Explanation)	XX, XXX
Prior-Year Questioned Costs (3)	<u>XX, XXX</u>
Ending Balance	XX, XXX
Inventory (2)	<u>XX, XXX</u>
	\$ <u>XX,XXX</u>

Due to Other Governmental Agencies or units consist of:

Current-Year Program C.A.C.F.P. Revenues over Expenditures	\$ XX, XXX
Prior-Year Program (Identify Program Year) Revenues Over Expenditures	<u>XX, XXX</u>
	\$ <u>XX, XXX</u>

Due to Other Programs/Agencies consist of:

Loan from XYZ Program: (Identify Program Year and the Purpose of Loan)	\$ XX, XXX
Loan to ADY Agency: (Identify Program Year and the Purpose of Loan)	\$ XX, XXX
	<u>XX,XXX</u>

- (1) Agrees with amount reported in Statement of Revenues and Expenditures.
- (2) Memorandum entry only, where applicable.
- (3) Prior-year Questioned Costs are recorded as a Receivable from the Contractor and a Payable to ACS.

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS (Cont'd)
January 31, 200X**

9. Lease Commitments:

The agency leases the main office under the Operating Lease that expires in 200X and Equipment (specify type) that expires over the next X years.

Commitments under operating Lease Agreements for Facilities and Equipment provided for minimum annual rental payments as follows:

	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
200X	\$ 5,000	2,500	7,500
200X	5,000	2,500	7,500
200X	5,000	2,500	7,500
200X	5,000	2,500	7,500
200X	5,000	2,500	7,500
Thereafter	<u>13,500</u>	-	<u>13,500</u>
Total	\$38,000	\$12,500	\$51,000

200X Rent Expense was \$7,500. The Cost Per Square Foot for the Facilities was \$10.50.

(If the Lease Agreement contains minimum Rentals, Contingent Rentals, and/or Sub-lease Rental, see SFAS No. 13, Appendix D for disclosure guidance.)

10. Contractual Agreements:

The Contractual Agreements disclosure should include those significant Contractual Agreements (excluding the leases reported in the Lease Footnote) related to the delegate agency (e.g., month-to-month leases or maintenance contracts.) the disclosures, at a minimum, should include:

- A. Name of Agreements;
- B. Future commitments under the agreements, including amounts committed and the period of time; and
- C. Any involvement with Related Parties

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS (Cont'd)
January 31, 200X**

11. Cost Allocation:

Some of the Administrative Expenditures charged to the agency consists of Indirect Costs that were allocated by a Cost Allocation Plan from the general Administrative Expenditures of the Sponsor. The Indirect Costs were allocated on the following basis:

- Rent – Square Footage
- Utilities – Square Footage
- Payroll – Number of Personnel
- Accounting – Number of Transactions

The total Indirect Costs charged to the delegate agency totaled \$XX, XXX and consists of the following components:

- Utilities \$ _____
- Rent _____
- Administrative Salaries _____
- Accounting \$ _____

12. Programmatic and Administrative Allocation:

The agency allocation of Title V and In-Kind Expenditures are as follows:

<u>COST</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
Administrative		
Programmatic		
TOTAL	_____	_____

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS (Cont'd)
January 31, 200X**

12. **In-Kind:**

The agency's In-Kind Match of \$ _____ was _____% which represents Title V Expenditures and the Centrally Paid Insurance. The In-Kind was based on the Fair Market Value of services, space and supplies provided to the program. Services are valued based upon _____.
Space is valued on the _____.

13. **Contingent Liabilities:***

The agency participates in a number of Federal, State, or locally assisted Grant Programs, of which the principle items are (describe each program). These programs are subject to Financial and Compliance Audits by the grantors or their representatives. The audit of the(se) program(s) for or including the year ended January 31, 200X, have not yet been conducted. Accordingly, the agency's compliance with applicable grant requirements will be established at some future date.

The amount, if any, of expenditures that may be disallowed by the granting agencies cannot be determined at this time although the agency expects such amounts, if any, to be immaterial.

*This Footnote should be appropriately modified to reflect contingency-related Current and Prior-Year Questioned Costs.

**DELEGATE AGENCY
NOTES TO FINANCIAL STATEMENTS (Cont'd)
January 31, 200X**

14. Related Parties:

Related-Party disclosures should include as a minimum:

- A. The nature of the relationship(s) involved.
- B. A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which statements of revenues and expenditures are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the Financial Statements.
- C. The dollar amounts of transactions for each of the periods for which statements of revenues and expenditures are presented and the effects of any change in the; method of establishing the terms from that used in the preceding period.
- D. Amounts due from or to related parties as of the date of each statement of assets and liabilities presented and, if not otherwise apparent, the terms and manner of settlement.

See SFAS No. 57, "Related Parties" for additional information.

15. Insurance Costs:

Insurance Costs aggregating \$XX, XXX for the fiscal year ended January 21, 20XX were paid by the City of New York on the behalf of the delegate agency's _____ employees and are not reflected in the Financial Statements. The components of the Centrally Paid Insurance Costs include:

Health	\$ XX, XXX
Disability	XX, XXX
Life	
Accident, Death, and Dismemberment	XX, XXX
Workers' Compensation	XX, XXX
General Liability	XX, XXX
Property Insurance	XX, XXX
Fatality Policy	<u>XX, XXX</u>
	\$ XX, XXX

SCHEDULES

**DELEGATE AGENCY
 DETALIED EXPLANATION OF QUESTIONED COSTS
 YEAR ENDED JANUARY 31, 200X**

Salaries:

Current Period Questioned Costs

The program exceeded the Fringe Benefit budget line
 for the year. **\$ XX, XXX**

Ms. Jane Doe was paid in excess the amount
 budgeted for her position during the year. **\$ XX, XXX**
\$ XX, XXX

Consumable Supplies:

Current Period Questioned Costs:

Invoice # 1234 Dated 12/3/20XX from the Bad Supply
 Company contained a credit for returned merchandise
 that was originally charged to the Consumable Supplies
 budget line, and the delegate agency did not record the
 credit. **\$ XX, XXX**

No supporting documentation was available for the following
 Disbursements:

<u>Check Number</u>	<u>Amount</u>	
1250	\$ XXX	
2345	\$ X, XXX	
2346	\$ X, XXX	
5467	\$ X, XXX	
		\$ <u>X, XXX</u>
		\$ X, XXX

**DELEGATE AGENCY
SCHEDULE OF CONSULTANTS AND CONTRACT SERVICES
YEAR ENDED JANUARY 31, 20XX**

Provide the Following Information:

Name of Consultant

Name of Contractor

Services Provided

Basis for Charge (i.e., Contract, Retainer, or Hourly Daily Basis)

Amount Paid and Accrued in the Financial Statements

- Notes:
- (1) This schedule should agree with the amount appearing in the Statement of Revenues and Expenditures.
 - (2) This Schedule is not required if there are no Consultants.

**DELEGATE AGENCY
LIST OF CHECKS OUTSTANDING FOR SIX MONTHS OR LONGER
YEAR ENDED JANUARY 31, 200X**

<u>Payee</u>	<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
--------------	---------------------	-------------------	---------------

Note: This information may be presented in the Footnote. The auditor should determine Compliance with New York State Laws.

This schedule is not required if there are no checks outstanding six months or longer.

**DELEGATE AGENCY
SCHEDULE OF OTHER COSTS
YEAR ENDED JANUARY 31, 200X**

<u>TITLE V EXPENSES</u>	<u>APPROVED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>	<u>QUESTIONED COSTS</u>
Total Title V Other Costs	\$ _____	\$ _____	\$ _____	\$ _____
 <u>C.A.C.F.P. EXPENSES</u>				
Non-Food Supplies				
Total C.A.C.F.P. Other Costs	\$ _____	\$ _____	\$ _____	\$ _____
 <u>SUB-GRANTEE CONTRIBUTIONS</u>				
Space Costs				
Total Sub- Grantee Contributions	\$ _____	\$ _____	\$ _____	\$ _____
Total Other Costs	\$ _____	\$ _____	\$ _____	\$ _____

Excel Sheet

**DELEGATE AGENCY
SCHEDULE OF QUANTITATIVE PROGRAM RESULTS
YEAR ENDED JANUARY 31, 200X**

This schedule should include the Percentage or Administrative Expenditures to Total Expenditures:

(1) Average Daily Attendance

- A. The Average Daily Attendance at this center for the twelve months under audit (February – January) was _____.
- B. This center is contracted to service at least _____ children a day.

(2) Average Number of Meals Served

- A. The Average Number of Meals served at this center for the twelve months under audit (February – January) was _____.
- B. This center is contracted to serve an average of _____ meals a day.

(3) Average "Raw Food" Cost Per Meal

- A. The Average Raw Food Costs Per Meal for the twelve months under audit was \$_____.
- B. The Average Raw Food Cost Per Meal for the twelve months under audit was \$_____.
- C. This center's contract specifies that Raw Food Costs Per Meal should not exceed \$_____.

**DELEGATE AGENCY
SCHEDULE OF FIXED ASSETS INVENTORY
YEAR ENDED JANUARY 31, 200X**

Description*

Date Purchased

Costs

Note: This schedule is only required for annual year-end audit.

*Include Serial or Tag Number, if available.

**SEE ATTACHED
DELEGATE AGENCY EXPENSE SUMMARY
(DAES)**

**DELEGATE AGENCY
COMPLIANCE AND INTERNAL CONTROL STRUCTURE SECTION**

Introduction

The agency, contracted by the City of New York, Administration for Children's Services provides the following services under the contract: (description of services). The eligibility or persons for the program is determined by the DSS.

The contract was received for the year ending January 31, 200X, and totals \$XXX, XXX for the period. The grant is being matched with funds from local services (describe sources). The local funds represent XX percent of the total program.

Exit Conference

An Exit Conference was held on March 31, 200X at _____ (location). In attendance were:

Delegate Agency: _____

Audit Firm: _____
(One member must at least be a manager)

Administration for Children's Services:
(If not in attendance, so state)

The Name and Title of each person in attendance should be included.

**DELEGATE AGENCY
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
CONTAINING NO INSTANCES OF NONCOMPLIANCE (1)**

Administration for Children's Services
Head Start Administration
150 William Street, 9th Floor
New York, NY 10038

Attention: Director

We have audited the Financial Statements of (Delegate Agency Program) (Budget ID# _____, for the year ended January 31, 200X, and have issued our report thereon dated _____. (2)

We conducted our audit in accordance with Generally Accepted Auditing Standards, Government Auditing Standards, issued by the Comptroller General of the United States and the ACS Head Start Audit Guidelines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

Compliance with laws, regulations, the compliance provisions of the ACS Head Start Audit Guidelines and contract applicable to (Delegate Agency Program) is the responsibility of (Delegate Agency Program)'s management. As a part of obtaining reasonable assurance about whether the Financial Statements are free of material misstatement, we performed of laws, regulations, the compliance provisions of the ACS Head Start Audit Guidelines and the contract. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested; (Delegate Agency Program) complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that (Delegate Agency Program) had not complied, in all material respects with those provisions. We determined that Quarterly Payroll Tax Returns have been properly filed, and minutes of the Board' of Directors have been reviewed to determine any effects they may have upon the audit. (3)

This report is intended solely for the use of the Administration for Children's Services and the City of New York Comptroller's Office. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the Administration for Children's Services, is a matter of public record.

Signed (XYZ Firm)

March 31, 200X

Notes:

1. The auditor, when considering whether he or she has a condition which is reportable, should consider materiality as defined by governing auditing standards, as follows:

The auditor should consider materiality and/or significance in planning the audit and in selecting the methodology and designing audit tests and procedures as well as in deciding whether matter requires disclosure in an audit report. One of the criteria to be considered in determining the materiality includes the monetary value of the item. However, materiality and significance often depend on qualitative as well as quantitative factors. Qualitative factors include, but are not limited to the cumulative effect and impact of immaterial items, the objectives of the work undertaken and the use of information. Decisions on these criteria are based on the auditor's professional judgment. In government audits the materiality level and/or threshold of acceptable risk may be lower than in similar type audits in the private sector because of the public accountability of the entity, the various legal and regulatory requirements and the visibility and sensitivity of government programs, activities and functions.

2. If the Independent Auditor's Report on the Financial Statements is other than Unqualified, the nature of the qualification should be set forth. The effect of the qualification on items in the Financial Statements that are used to determine compliance should be considered in rendering negative assurance as to compliance.
2. The auditor is required to perform a Follow-up of Prior Period reported Compliance Deficiencies. The follow-up is to be divided between Follow-Up of Prior Period Administrative Compliance Finding and Prior Period Questioned Costs. This follow-up should be in all reports and if there were no Prior Findings, the auditor's report should contain a positive statement to that effect.

**DELEGATE AGENCY
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
CONTAINING MATERIAL INSTANCES OF NONCOMPLIANCE (1)**

Administration for Children's Services
150 William Street
New York, NY 10038

Attention: Director

We have audited the Financial Statements of (Delegate Agency Program) (Budget ID#____) as of and for the year ended June 30, 19xx, and have issued our report thereon dated March 31, 200X. (2)

We conducted our audit in accordance with Generally Accepted Auditing Standards, Government Auditing Standards, issued by the Comptroller General of the United States and the ACS Head Start Audit Guidelines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

Compliance with laws, regulations, the compliance provisions of the ACS Head Start Audit Guidelines and contract applicable to (Delegate Agency Program) is the responsibility of (Delegate Agency Program)'s management. As a part of obtaining reasonable assurance about whether the Financial Statements are free of material misstatement, we performed tests of (Delegate Agency Program)'s compliance with certain provisions of laws, regulations, the compliance provisions of the ACS Head Start Audit Guidelines and the contract. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, the compliance provision of the ACS Single Audit Guide and the contract that causes us to conclude that the aggregation of the misstatements resulting from those failures of violations is material to the Financial Statements. The result of our tests of compliance disclosed the following material instances of noncompliance and the Questioned Costs as reflected in Schedule A, the effects of which have been corrected in (Delegate Agency Prog.)'s 200X Financial Statements. (3)

(Include paragraph describing the material instances on noncompliance noted.) (4) (5)
(6)

We considered these material instances of noncompliance in forming our opinion on whether (Delegate Agency Program)'s 200X Financial Statements are presented fairly, in all material respects, in conformity with Generally Accepted Accounting Principles, and

this report does not affect our report dated March 31, 200X on those Financial Statements. (3)

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested (Delegate Agency Program) complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that (Delegate Agency Program) had not complied, in all material respects, with those provisions. In addition, as required by Section 1510.15 of the ACS Head Start Audit Guidelines, we determined that Quarterly Payroll Tax Returns have been properly filed, and minutes of the Board of Directors have been reviewed to determine any effects that may have had upon the audit. (7)

This report is intended solely for the use of the ACS and City of New York Comptroller's Office. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the ACS, is a matter of public record.

Sign (XYZ Firm)

March 31, 200X

Notes:

1. The auditor, when considering whether he or she has a condition which is reportable, should consider materiality as defined by Governing Auditing Standards, as follows:

The auditor should consider materiality and/or significant in planning the audit and in selecting the methodology and designing audit tests and procedures as well as in deciding whether a matter requires disclosure in an audit report. One of the criteria to be considered in determining 'the materiality includes the monetary value of the item. However, materiality and significance often depend on Quantitative Factors as well as Quantitative Factors. Qualitative Factors include, but are not limited to the cumulative effect and impact of immaterial items, the objectives of the work undertaken and the use of the reported information by the user of groups of users of the information. Decisions on these criteria are based on the auditor's professional judgment In government audits the materiality level and/or threshold of acceptable risk may be lower than in similar-type audits in the private sector because of the public accountability of the entity, the various legal and regulatory requirements and the visibility and sensitivity of government programs, activities and functions.

2. If the Independent Auditor's Report on the Financial Statements is other than Unqualified, the nature of the qualification should be set forth. The effect of the qualification on items in the Financial Statements that are use to determine compliance should be considered in rendering negative assurance to compliance.
3. Per SAS No.63, Paragraph 25, the auditor may wish to include a statement about whether the misstatement resulting from the material instances of noncompliance have been corrected in the Financial Statements or a statement describing the effect of such misstatements on his or her report on the Financial Statements.
4. Government Auditing Standards (GAO Yellow Book). Issued by the Comptroller General of the United States, require the following regarding presentation of Audit Findings:
 - The report should include a full discussion of the Audit Findings, and where applicable the auditor's conclusions.
 - The report should present the Findings and Finding elements developed in response to the audit objective. Sufficient, competent and relevant information about Findings should be included to promote adequate understanding of the matters reported and to provide convincing, but fair presentations in proper perspective. Appropriate background information that readers need to understand the Finding should also be included.
 - Audit Findings have often been regarded as containing the elements of Criteria, Condition and Effect, plus Cause when problems are found. However, the elements needed for a complete Finding depend entirely on the objectives of the audit, thus, a Finding or set of Findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the Finding's elements.

- The report should contain conclusions when called for by the audit objectives. Conclusions should be specified and not left to be inferred by the readers. The report should not be written in the basis that a bare recital of facts makes the conclusions inescapable.
- The report should include the cause of problems areas noted in the audit and recommendations for actions to correct the problem areas and to improve operations.
- The report should include a discussion of cause when problems are reported and the audit objectives call for development of the reasons for the problems. In some audits, the objective may be limited to identifying whether a problem exists with no requirement for identifying the cause, even if a problem is found.
 - Identifying the underlying cause of problems is helpful in making constructive recommendations to achieve corrective action. When auditors know why something happened, they can more readily determine what action is needed to prevent its recurrence.
 - Because problems can result from a number of plausible factors, auditors need to clearly demonstrate and explain with applicable evidence and reasoning the link between the problem and the factor or factors they identified as the cause. In some cases, the auditors may need to describe how they isolated the stated cause or causes from other plausible factors. This is not a requirement for proof of a casual relationship, but a requirement for reasonable persuasive argument.
 - The report should contain Recommendations when the potential for significant improvement in operations and performance is substantiated by the report Findings and Recommendations are called for by the audit objectives. Recommendations to effect compliance with laws and regulations and improve internal controls should also be made when significant instances of noncompliance are noted or significant weaknesses in controls are found.
 - Reports which contain constructive Recommendations can encourage improvements in the conduct of government programs and activities. Recommendations are most constructive when they are directed at resolving the cause of identified problems, are action oriented and specific, and are addressed to parties that need to act. Recommendations also need to be feasible and cost-effective.
5. The auditor should place his or her Findings in proper perspective. The extent of Non-Compliance should be related to the number of cases examined to give the reader a basis for judging the prevalence of non-compliance.

6. The Finding Sections should be appropriately segregated between Current Period and Prior Period Findings. The auditor is required to perform a follow-up of Prior Period Administrative Compliance Deficiencies. The follow-up is to be divided between of Follow-up of Prior Period Administrative Compliance Findings and Prior Period Questioned Costs. This follow-up should be in all reports and if there were no Prior Findings, the auditor's report should contain a positive statement to that effect.

7. Illustrative Compliance Deviation Comments, prepared in accordance with Section 1500 (see page 41), include:

**DELEGATE AGENCY
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
CONTAINING MATERIAL AND NONMATERIAL INSTANCES OF
NON-COMPLIANCE (1)**

Administration for Children's Services
150 William Street
New York, NY 10038

Attention: Director

We have audited the Financial Statements of (Delegate Agency Program) (Budget ID# _____) as of and for the year ended January 31, 200X, and have issued our report thereon dated March 31, 200X. (2)

We conducted our audit accordance with Generally Accepted Auditing Standards, Government Auditing Standards, issued by the Comptroller General of the United States and the ACS Head Start Audit Guidelines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

Compliance with law, regulations, the compliance provisions of the ACS Head Start Audit Guidelines and the contract applicable to (Delegate Agency Program) is the responsibility of (Delegate Agency Program's) compliance with certain provisions of laws, regulations, the compliance provisions of the ACS Head Start Audit Guidelines Contract. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, the compliance provision of the ACS Head Start Audit Guidelines and the contract that cause us to conclude that the aggregation of the misstatements resulting from those failures of violations is material to the Financial Statements. The result of our tests of compliance disclosed the following material instances of noncompliance and the Questioned Costs as reflected in Schedule A, the effects of which have been corrected in the (Delegate Agency Program's) 200X Financial Statements. (3)

(Include a paragraph describing the material instances on Non-Compliance noted.) (4)
(5) (6)

We considered these material instances of Non-Compliance in forming our opinion on whether (Delegate Agency Program's) 200X Financial Statements are presented fairly, in all material respects, in conformity with Generally Accepted Accounting Principles, and this report does not affect our report dated March 31, 200X on those Financial Statements. (3)

In addition to the above mentioned material instances of Non-Compliance, we noted certain immaterial instances of noncompliance as described below.

(Include a paragraph describing the immaterial instances of Non-Compliance noted.) (4)
(5) (6) (7)

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, (Delegate Agency Program) complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that (Delegate Agency Program) had not complied, in all material respects with those provisions. In addition, as required by Section 1510.15 (see Page 47) of the ACS Head Start Audit Guidelines, we determined Quarterly Payroll Tax Returns have been properly filed and Minutes of the Board of Directors have been reviewed to determine any effects they may have had upon the audit. (7)

This report is intended solely for the use of the ACS and the City of New York Comptroller's Office. This restriction is not intended to limit the distribution of this report, which upon acceptance by ACS is a matter of public record.

Sign (XYZ Firm)

March 31, 200X

Notes:

1. The auditor, when considering whether he or she has a condition reportable, should consider materiality as defined by Governing Auditing Standards, as follows:

The auditor should consider materiality and/or significance in planning the audit and in selecting the methodology and designing audit tests and procedures as well as in deciding whether a matter requires disclosure in an audit report. One of the criteria to be considered in determining materiality includes the monetary value of the item. However, materiality and significance often depend on qualitative as well as quantitative factors. Qualitative factors include, but are not limited to the cumulative effect and impact of immaterial items, the objectives of the work undertaken, and the use of the reported information by the user or groups of users of the information. Decisions on these criteria are based on the auditor's professional judgment. In government audits the materiality level and/or threshold of acceptable risk May be lower than in similar-type audits in the private sector because of the public and the visibility and sensitivity of government programs, activities and functions

2. If the Independent Auditor's Report on the Financial Statements is other than Unqualified, the nature of the qualification should be set forth. The effect of the qualification on items in the Financial Statements that are used to determine compliance should be considered in rendering negative assurance as to compliance.
3. Per SAS No.63, Paragraph 25, the auditor may wish to include a statement about whether the misstatement resulting from the material instances of noncompliance have been corrected in the Financial Statements or a statement describing the effect of such misstatements on his or her report on the financial statements.
4. Government Auditing Standards (GAO Yellow Book). Issued by the comptroller general of the United States, require the following regarding presentation of audit findings:
 - The report should include a full discussion of the Audit Findings, and where applicable the auditor's conclusions.
 - The report should present the Findings and Finding elements developed in response to the Audit Objective. Sufficient, competent and relevant information about Findings should be included to promote adequate understanding of the matters reported and to provide convincing, but fair presentations in proper perspective. Appropriate background information that readers need to understand the Finding should also be included.

- Audit Findings have often been regarded as containing the elements of Criteria, Condition and Effect, plus Cause when problems are found. However, the elements needed for a complete Finding depend entirely on the objectives of the audit, thus, a Finding or set of Findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the Finding's elements.
- The report should contain conclusions when called for by the audit objectives. Conclusions should be specified and not left to be inferred by the readers. The report should not be written in the basis that a bare recital of facts makes the conclusions inescapable.
- The report should include the cause of problems areas noted in the audit and recommendations for actions to correct the problem areas and to improve operations.
 - The report should include a discussion of cause when problems are reported and the audit objectives call for development of the reasons for the problems. In some audits, the objective may be limited to identifying whether a problem exists with no requirement for identifying the cause, even if a problem is found.
 - Identifying the underlying cause of problems is helpful in making constructive recommendations to achieve corrective action. When auditors know why something happened, they can more readily determine what action is needed to prevent its recurrence.
 - Because problems can result from a number of plausible factors, auditors need to clearly demonstrate and explain with applicable evidence and reasoning the link between the problem and the factor or factors they identified as the cause. In some cases, the auditors may need to describe how they isolated the stated cause or causes from other plausible factors. This is not a requirement for proof of a casual relationship, but a requirement for reasonable persuasive argument.
 - The report should contain recommendations when the potential for significant improvement in operations and performance is substantiated by the report Findings and Recommendations are called for by the Audit Objectives. Recommendations to effect compliance with laws and regulations and improve Internal Controls should also be made when significant instances of noncompliance are noted or significant weaknesses in controls are found.
 - Reports which contain constructive recommendations can encourage improvements in the conduct of government programs and activities. Recommendations are most constructive when they are directed at resolving the cause of identified problems, are action oriented and specific, and are addressed to parties that need to act. Recommendations also need to be feasible and cost-effective.

5. The auditor should place his or her Findings in proper perspective. The extent of noncompliance should be related to the number of cases examined to give the reader a basis for judging the prevalence of noncompliance
6. The Findings Section should be appropriately segregated between Current Period and Prior Period Findings. The auditor is required to perform a follow-up of prior reported Compliance Deficiencies. The follow-up is to be divided between follow-up of Prior Period administrative compliance Findings and Prior Period Questioned Costs. This follow-up should be in all reports and if there were no prior findings, the auditor's report should contain a positive statement to that effect.
7. Illustrative Compliance Deviation Comments, prepared in accordance with Section 1500 (see page 41), include:

Food Service

The temperature in the non-refrigerated food storage was 75 degrees Fahrenheit, which is 5 degrees Fahrenheit above the maximum allowable temperature. The contract and New York City Health regulations provide for a required temperature range to ensure safe storage and to ensure against spoilage of non-refrigerated food.

We recommend that procedures be implemented to the temperature in the non refrigerated food storage area. The delegate agency stated that they did not monitor the temperature on a routine basis, but would implement temperature monitoring procedures.

Salary Verification Forms

The Salary Verification Forms for example Mr. Jones, Bookkeeper, and J. Jackson, Custodian, could not be located by the delegate agency. Completion of the Salary Verification Form is required by the contract. The forms document the salary authorized for each employee and provide a basis for the salary paid.

We recommend that the delegate agency develop procedures to ensure completion of the Salary Verification Forms and the filing of the forms in the personnel files. The delegate agency indicated that the forms must have been misplaced and that they will remind their employees of the importance of completing and filing the forms on a timely basis.

Facilities Documentation

The Evacuation Plan did not indicate each group's destination once they, were outside the building. The contract with ACS requires that the Evacuation Plan indicate the destination of each group, so a quick determination can be made as to the status of each group, in the event of an emergency evacuation.

We recommend that the plan be modified to reflect the destination of each group. The delegate agency stated that they ere not aware of the requirement, but would update the Evacuation Plan within one month.

8. In the event exceptions are reported as a result of test performed, the auditor should consider the extent to which the pervasiveness of reported exceptions may affect the auditor's ability to express negative assurance with respect to items not tested.

**DELEGATE AGENCY
INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL STRUCTURE CONTAINING
NO REPORTABLE CONDITIONS (1)**

Administration for Children's Services
150 William Street
New York, NY 10038

Attention Director

.We have audited the financial statements of (Delegate Agency Program) (Budget ID# _____) as of and for the year ended January 31, 200X, and have issued our report thereon dated March 31, 200X. (2)

We conducted our audit accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States and the ACS Head Start Audit Guidelines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

In planning and performing our audit of the Financial Statements of (Delegate Agency Program) for the year ended January, 31, 200X, we considered its Internal Control Structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Financial Statements and not to provide assurance on the Internal Control Structure.

The management of the (Delegate Agency Program) is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of Internal Control Structure Policies and Procedures. The objective of an Internal Control Structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of Financial Statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant Internal Control Structure Policies and Procedures in the following categories (identify Internal Control Structure categories). (3) (4)

For all of the Internal Control Structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the Internal Control Structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A Material Weakness is a reportable condition in which the design or operation of one or more of the specific Internal Control Structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the Financial Statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions We noted no matters involving the Internal Control Structure and its operation that we consider to be Material Weaknesses as defined above. (5) (6)

This report is intended, solely for the use of the ACS and the City of New York Comptroller's office. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the ACS, is a matter of public record

Sign (XYZ Firm)

March 31, 200X

Notes:

1. The auditor, when considering whether he or she has a condition which is reportable, should consider materiality as defined by Governing Auditing Standards, as follows:

The auditor should consider Materiality and/or significant in planning the audit and in selecting the methodology and designing audit tests and procedures as well as in deciding whether a matter requires disclosure in an audit report. One of the criteria to be considered in determining the Materiality includes the monetary value of the item. However, Materiality and significance often depend on Qualitative as well as Quantitative factors. Qualitative factors include, but are not limited to the cumulative effect and impact of immaterial items, the objectives of the work undertaken and the use of the reported information by the user of groups of users of the information. Decisions on these criteria are based on the auditor's professional judgment. In government audits the materiality level and/or threshold of acceptable risk may be lower than in similar-type audits in the private sector because of the public accountability of the entity, the various legal and regulatory requirements and the visibility and sensitivity of government programs, activities and functions.

2. If the Independent Auditor's Report on the Financial Statements is Qualified because of restriction on the Scope of the examination, restriction and its effect, if any on the evaluation on the system of Internal Control Structure should be set forth . The effect of the qualification in the Financial Statements should be considered in determining the matters that should be reported in the auditor's report on Internal Control Structure.
3. Government Auditing Standards (GAO Yellow Book). Issued by the Comptroller General of the United States, require a report on the entity's Internal Control Structure. The GAO reporting standards go beyond SAS NO.60, and in accordance with SAS classification on the control structure, and those classifications for which the control risk was not assessed.

The following are examples of three different ways the Internal Control Structure might be classified. The auditor should modify these examples or use other classifications as appropriate for the particular circumstances on which he is reporting.

Cycles of the Entity's Activity

Treasury or Financing

Revenue/Receipts

Purchases/Disbursements

External Financial Reporting

Financial Statement Captions

Cash and Cash Equivalents
Receivables
Inventory
Property Equipment
Payables and Accrued Liabilities
Debt
Fund Balance

Accounting Applications

Billings
Receivables
Cash Receipts
Purchasing and Receiving
Accounts Payable
Cash Disbursements
Payroll
Inventory Control
Property and Equipment
General Ledger

3. ACS expects the auditor will gain an understanding of the Internal Control Structure and assess the control risk. The Yellow Book lists the reasons where the auditor may limit the consideration of the Internal Control Structure. These reasons, which should only be used in certain exceptional circumstances, include: (1) An adequate Internal Control Structure does not exist for reliance thereon because of the small size of the entity; (2) The auditor may conclude that it would be inefficient to evaluate the effectiveness of Internal Control Structure Policies and Procedures and that the audit can be conducted more efficiently by expanding Substantive Audit Tests, thus placing very little reliance on the Internal Control Structure; and (3) The existing Internal Control Structure may contain so many weaknesses that the auditor has no choice but to rely on substantive testing, thus virtually ignoring the Internal Control Structure. The above circumstances should be documented in the Working Papers and included in the report on Internal Control Structure.

5. The auditor is required to report that a surprise Payroll Distribution and Floor Check were performed. The following paragraph should be inserted into the comment section of the report or before the last paragraph (if no comments are included in the report):

As required by ACS Head Start Guidelines, we performed on a surprise basis, a Payroll Distribution on January 28, 200X, covering XX percent of the individuals on the Payroll and performed a surprise "Floor Check" of individuals on the Payroll on a test basis covering XX percent of the total individuals on the Payroll.

- A. If a Payroll Distribution and/or Floor Check could not be performed but alternative procedures were applied, the actual alternative procedures used should be inserted into the report. (See Section 1200; see pages 13 to 15 for guidance on alternative procedures). Suggested wording includes:

The Payroll Distribution and /or Floor Check required by the ACS Head Start Audit Guidelines could not be performed because of (insert reason for inability to perform Payroll Distribution and/or Floor Check). However, the following alternative procedures were performed to meet the above requirement. (List alternative procedures applied.)

- *B. If in reporting on the Interim Audit the Payroll Distribution and/or Floor Check are to be performed during the Year-End Audit, the suggested wording includes;

The Payroll Distribution and/or Floor Check required by the ACS Head Start Guidelines were not performed during the Interim Audit. However, the required procedures will be included in the Year-End Audit.

- *C. If in reporting on the Year-End Audit, the Payroll Distribution and/or Floor Check were performed during the Interim Audit, the suggested wording includes:

The Payroll Distribution and/or Floor Check required by the ACS Head Start Audit Guidelines were performed during the Interim Audit and the procedures are reported in our Compliance Report dated February 27, 200X.

6. The auditor is required to perform a follow-up of Prior Period reported Internal Control Structure Deficiencies. This follow-up should be in all reports and if there were no prior Findings, the auditor's report should contain a positive statement to that effect.

*Applicable only to Full Scope Interim Audits.

**DELEGATE AGENCY
INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL STRUCTURE CONTAINING
REPORTABLE CONDITIONS (1)**

Administration for Children's Services
150 William Street
New York, NY 10038

Attention Director:

We have audited the financial statements of (Delegate Agency Program) (Budget ID _____) as of and for the year ended January 31, 200X, and have issued our report thereon dated March 31, 200X. (2)

We conducted our audit accordance with Generally Accepted Auditing Standards, Government Auditing Standards, issued by the Comptroller General of the United States and the ACS Head Start Audit Guidelines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatement.

In planning and performing our audit of the Financial Statements of (Delegate Agency Program) for the year ended January 31, 200X, we considered its Internal Control Structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Financial Statements and not to provide assurance on the Internal Control Structure.

The management of the (Delegate Agency Program) is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of Internal Control Structure Policies and Procedures. The objective of an Internal Control Structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of Financial Statements in accordance with Generally Accepted Accounting Principles. Because of inherent limitations in any Internal Control Structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant Internal Control Structure Policies and Procedures in the following categories (identify Internal Control Structure categories). (3) (4)

For all of the Internal Control Structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed Control Risk

We noted certain matters involving the Internal Control Structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the Internal Control Structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize and report financial data consistent with the assertions of management in the Financial Statements.

(Include paragraph describing the immaterial instances of Non-Compliance noted.)
(5) (6)

A Material Weakness is a Reportable Condition in which the design or operation of the specific Internal Control Structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the Financial Statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the Internal Control Structure would not necessarily disclose all matter in the Internal Control Structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be Material Weaknesses as defined above. However, we believe none of the reportable conditions described above is a Material Weakness. (7)

This report is intended solely for the se of the ACS and City of New York Comptroller's Office. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the ACS, is a matter of public record.

Sign (XYZ Firm)

March 31, 200X

Notes:

1. The auditor should consider Materiality and/or significant in planning the audit and in selecting the methodology and designing audit tests and procedures as well as in deciding whether a matter requires disclosure in an audit report. One of the criteria to be considered in determining the Materiality includes the monetary value of the item. However, materiality and significance often depend on quantitative factors. Qualitative factors include, but are not limited to the cumulative effect and impact of immaterial items, the objectives of the work undertaken and the use of the reported information by the user of groups of users of the information. Decisions on these criteria are based on the auditor's professional judgment. In government audits the materiality level and/or threshold of acceptable risk may be lower than in similar-type audits in the private sector because of the public accountability of the entity, the various legal and regulatory requirements and the visibility and sensitivity of government program, activities and functions.
2. If the Independent Auditor's Report on the Financial Statements is Qualified because of restriction on the Scope of examination, restriction and its effect, if any, then on the evaluation of the system of Internal Control Structure should be set forth. The effect of the qualification in the Financial Statements should be considered in determining the matters that should be reported in the auditor's report on Internal Control Structure.
3. Government Auditing Standards (Yellow Book), issued by the Comptroller General of the United States, require a report on the entity's Internal Control Structure. The GAO reporting standards go beyond SAS NO.60, and in accordance with SAS NO.63 require the auditor to identify in the auditor's report the entity's significant classification of the Control Structure, and that classification of the control structure, and those classifications for which the control risk was not assessed.

Given below are the examples of three different ways the Control Structure might be classified. The auditor should modify these examples or use other classifications as appropriate for the particular circumstances on which he is reporting;

Cycles of the Entity's Activity

Treasury or Financing
Revenue/Receipts
Purchases/Disbursements
External Financial Reporting

Financial Statement Captions

Cash and Cash Equivalents
Receivables
Inventory
Property and Equipment
Cash Receipts
Payables and Accrued Liabilities
Debt
Fund Balance

Accounting Applications

Billings
Receivables
Cash Receipts
Purchasing and Receiving
Accounts Payable
Cash Disbursements
Payroll
Inventory Control
Property and Equipment
General Ledger

4. ACS expects the auditor will gain an understanding of the Internal Control Structure and assess the Control Risk. The Yellow Book lists reasons where the auditor may limit the consideration of the Internal Structure. These reasons, which should only be used in certain exceptional circumstances, include: (1) An adequate Internal Control Structure does exist for reliance thereon because of the small size of the entity; (2) The auditor may conclude that it would be inefficient to evaluate the effectiveness of Internal Control Structure Policies and Procedures and that the audit can be conducted more efficiently by expanding substantive audit tests, thus placing very little reliance on the Internal Control Structure; and (3) The existing Internal Control Structure may contain so many weaknesses that the auditor has no choice but to rely on Substantive Testing, thus virtually ignoring the Internal Control Structure. The above circumstances should be documented in the Working Papers and included in the Report on Internal Control Structure.

5. Government Auditing Standards (GAO Yellow Book), issued by the Comptroller General of the United States, requires the following regarding presentation of the Audit Findings:

- The report should include a full discussion of the Audit Findings, and where applicable, the Auditor's Conclusions.
- The report should present the Finding and Finding elements developed in response to the Audit Objective. Sufficient, competent and relevant information about Findings should be included to promote adequate understanding of the matters reported and to provide convincing, but fair presentations in proper perspective. Appropriate background information that readers need to understand the Finding should also be included.
- Audit Findings have often been regarded as containing the elements of Criteria, Condition and Effect, plus cause when problems are found. However, the elements needed for a complete Finding depend entirely on the objectives of the audit. Thus, a Finding or set of Findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the Finding's elements.
- The report should contain Conclusions when called for by the audit objectives. Conclusions should be specified and not left to be inferred by readers. The report should not be written on the basis that a bare recital of facts makes the Conclusions inescapable.
- The report should include the cause of problem areas noted in the Audit and Recommendations for actions to correct the problem areas to improve operations.
 - The report should include a discussion of cause when problems are reported and the audit objectives call for development of the reasons for the problems. In some audits, the objective may be limited to identifying whether a problem exists with no requirement for identifying the cause, even if a problem is found.
 - Identifying the underlying cause of problems found is helpful in making constructive recommendations to achieve corrective action. When auditors know why something happened, they can more readily determine what action is needed to prevent its recurrence.

- Because problems can result from a number of plausible factors, auditors need to clearly demonstrate and explain with applicable evidence and reasoning the link between the problem and the factor or factors they identified as the cause. In some cases, the auditors may need to describe how they isolated the stated cause or causes from other plausible factors. This is not a requirement for proof of a casual relationship, but a requirement for reasonable persuasive argument.
- The report should contain Recommendations when the potential for significant improvement in operations and performance is substantiated by the reported Findings and Recommendations are called for by the Audit Objectives. Recommendations to effect compliance with laws and regulations and improve Internal Controls should also be made when significant instances of Non-Compliance are noted or significant weaknesses in controls are found.
- Reports which contain constructive Recommendations can encourage improvements in the conduct of government programs and activities. Recommendations are most constructive when they are directed at resolving the cause of identified problems, are action oriented and specific, and are addressed to parties that need to act. Recommendations also need to be feasible and cost-effective.

6. The Comments Section of the report is structured as follows, as applicable:

Comment Section

Reportable Conditions and Material Weaknesses:

Current-Period Comments:

Prior-Period Comments:

Nonmaterial Weaknesses:

Current-Period Comments:

Prior-Period Comments:

Statement on Payroll Distribution and Floor Checks:

(See Note below for guidance)

The Comments Section must include both the auditor's Recommendation and the delegate agency's Response.

7. The auditor is required to report that surprise Payroll Distribution and Floor Check were performed. The following paragraph should be inserted into the Comment Section of the report or before the last paragraph (If no comments are included in the report):

As required by ACS Head Start Audit Guidelines, we performed, on a surprise basis, a Payroll Distribution on January 28, 200X, covering XX percent of the individuals on the Payroll and performed a surprise "Floor Check" of individuals on the Payroll on a test basis covering XX percent of the total individuals on the Payroll.

- A. If a Payroll Distribution and/or Floor Check could not be performed but alternative procedures were applied, the actual alternative procedures used should be inserted into the report. (See Section 1200, pages 13 to 15, for guidance on alternative procedures.)

Suggested wording includes:

The Payroll Distribution and/or Floor Check required by ACS Single Head Start Audit Guidelines could not be performed because of (Insert reason for inability to perform the Payroll Distribution and/or Floor Check). However, the following alternative procedures were performed to meet the above requirement. (List alternative procedures applied.)

- *B. If in reporting on the Interim Audit Payroll Distribution and/or Floor Check are to be performed during the Year-End Audit, the suggested wording includes;

The Payroll Distribution and/or Floor Check required by ACS Head Start Audit Guidelines were not performed during the Interim Audit.

- *C. If in reporting on the Year-End Audit, the Payroll Distribution and/or Floor Check were performed during the Interim Audit, the suggested wording includes:

The Payroll Distribution and/or Floor Check required by the ACS Head Start Audit Guidelines were performed during the Interim Audit and the procedures are reported in our Compliance Report dated February 27, 200X.

**SUGGESTED FORM OF AUDITOR'S REPORT ON
COMMON SPONSOR DEFICIENCIES**

Administration for Children's Services
150 William Street
New York, NY 10038

Attention Director:

We have previously reported on Internal Control Structure and Compliance Matters pertaining to the following programs administered by (identify Sponsor):

Program:

Budget I.D. Number:

Audit Period:

Date of Reports:

(List each Program/Agency)

The Scope and purpose of our engagement and the objectives of the Internal Control Structure are described in the aforementioned reports, which are incorporated herein by reference.

Presented below is a summary of Internal Control Structure and Compliance Finding common to two or more of the above programs.

(List all Findings common to two or more programs.) (1)

This report is intended solely for the use of ACS and the City of New York Comptroller's Office. This restriction is not intended to limit the distribution of this report, which, upon acceptance by ACS is a matter of public record.

Signed (XYZ Firm)

March 31, 200X

Notes:

1. The auditor is expected to briefly state the condition that is common to two or more programs and the number of programs affected by the reported Condition. The following provides a sample of such reporting where five delegate agency programs under one sponsor were audited.

1. **Condition**

At two of the five programs audited, based upon a sample Payroll Test performed, it was noted that timesheets were not being signed by employees or approved by supervisory personnel.

2. **Condition**

At three of the five programs audited, an examination of vendor invoices revealed that the invoices are not always cancelled by being marked as "PAID" in order to prevent and inadvertent duplicate payment.

Section 2000

Head Start

Program Background

- .01 The ACS Head Start program had the responsibility of administering, monitoring, influencing, and promoting quality Head Start development and supportive services for Pre-school children and their families through the organization of a comprehensive service delivery network.
- .02 The ACS carries out these responsibilities through the contractual purchase of Head Start services from nonprofit sponsoring organizations (delegate agencies). The delegate agencies, which are composed of community representatives, professional, and/or parent's are responsible for ensuring that the program is operated in compliance with Federal, State and City regulations. This includes maintaining a License(s); Staffing, Facility Management; Scheduling and Planning the Education, Health, and Food Services Programs; adherence to responsible Fiscal, Administrative and Programmatic Practices; and maintaining prescribed levels of Enrollment and Attendance Utilization.

Compliance

- .03 The purpose of this Contract Compliance Review is to determine whether the delegate agencies have complied with specific contractual requirements. The specific compliance areas to be reviewed and the guidelines are delineated below.

Attendance

- .04 All delegate agencies, on a monthly basis, are required to submit the Attendance Reports (Exhibit 1) to the ACS/Head Start Central Office. These reports are used to determine compliance with Federal Attendance and Enrollment Requirements. The objective of this review is to determine whether the attendance information reported by the delegate agencies to ACS/Head Start is reliable and supported by appropriate documentation.
- .05 Review procedures, on a test basis, should include;
 - A. Determining that the following procedures are performed by the delegate agency:
 - Attendance is recorded daily for each child enrolled in the program in a Roll Book, Attendance Sheet, or other source document.
 - Daily attendance is tallied on the monthly report for each eligible child enrolled in the program.
 - The monthly report agrees to the report submitted to the ACS/Head Start Central Office.

- B. Determining that attendance, as recorded in the Roll Book, Daily Attendance Sheet, or other source document, is properly supported by:
- Performing, on an unannounced basis, a head count of children in attendance on a given day.
 - Tracing the results of the above head count to the attendance recorded for each child in the Roll Book, Daily Attendance Sheet, or other source document.
- C. Determining that the monthly attendance for each child, as recorded in the Roll Book, Daily Attendance Sheet, or other source document, matches the Monthly Attendance Sheet as reported for each child in the ACS monthly report by tracing, for the month in which the head count was performed the daily entries in the Roll Book, Daily Attendance Sheets, or other source document to the Monthly Attendance/Enrollment Report.
- D. Determining that the delegate agency is meeting Enrollment Requirements by comparing actual attendance to levels of enrollment per contract.

Food Service

06. The objective of this review is to determine:
- A. Whether the Food Service is in general accordance with ACS Head Start Audit Guidelines: and
- B. Whether the number of meals and snacks served is consistent with the number of meals and snacks claimed for C.A.C.F.P. reimbursement.
07. Review procedures, on a test basis should include:
- A. Determining that the following procedures are performed by the delegate agency:
- Menus are posted and dated.
 - Menus reflect food actually served.
 - Menus of meals actually served are on file.

There is a Food Protection Certificate (Exhibit 2) for either the person doing the cooking or assisting with the cooking of the Director of the center.

There is a thermometer installed in each food storage area and temperatures are within the ranges specifies below:

Freezer: -5 degrees Fahrenheit to 5 degrees Fahrenheit

Refrigerator: 35 degrees Fahrenheit to 45 degrees Fahrenheit

Non-Refrigerator: 60 degrees Fahrenheit to 70 degrees Fahrenheit

B. Determining that the number of meals and snacks* served daily is properly recorded by:

- Performing, on an unannounced basis, a count of the actual number of meals and snacks served on a given day.
- Tracing the results of the above count to the daily written record of meals/snacks served.

C. Determining that the number of meals and snacks served monthly, as recorded in the daily written record, agrees with the number as reported on the monthly C.A.C.F.P. Claim Form.

Facilities

.08 The purpose of this review is to determining whether the delegate agency has the required Facilities documentation as specified below.

.09 Review procedures should include ascertaining that the following documents and/or plans are present at the delegate agency and that documents/plans meet the requirements set forth below.

A. Certificate of Occupancy (C. of O.)

Each Delegate Agency must have a C. of O. (Exhibit 3).

The C. of O. is to include maximum allowable occupancies (e.g., Head Start), maximum number of people, and maximum floor load. The C. of O. must be posted in a place available to the public.

B. Certificate of Fitness

Each delegate agency must have a Certificate of Fitness (Exhibit 4) from the Fire Department indicating that a current and regular staff member on the premises has pass a prescribed course in the operation of specific fire detection and prevention equipment (e.g., Interior Fire Alarms, if applicable).

The Certificate of Fitness must be posted in a place available to the public.

*Definition of number of meals and snacks served: The number of children being served at the point of service.

C. Fire Evacuation Plan

Each delegate agency must have a complete Fire Evacuation Plan that includes the items specified below:

- The Primary and Alternative Fire Exits.
- The delegate agency's physical layout.
- The order in which groups should leave the building.
- The destination of each group once outside.
- The responsibility of each staff person, including Clerical, Kitchen, and Custodial Staff.
- A Fire Evacuation Plan must be posted in each classroom, office, and public bulletin board.
- Each classroom is to have written instructions for that room.
- Inside each room there must be a diagram indicating "You Are Here" and indicating the route to the Primary Exit.

D. Fire Drill Log

Each delegate agency must have a Fire Drill Log available that shows monthly entries including:

- Date.
- Time of Drill.
- Time needed to evacuate building.
- Problems (if any).
- Initials of person in charge.

E. Interior Fire Alarm Testing Record

Each delegate agency must have an interior Fire Alarm Testing Record available that shows daily entries including:

- Date
- Time of Testing
- Station Tested

F. Fire Inspection Report

Each delegate agency must have a Fire Inspection Report available that includes a check-off list from the Fire Department citing violations, if any.

G. Security Plan

Each delegate agency must have a complete Security Plan available that includes:

- Center Opening Procedures (including opening of Fire Exit Doors)
- Center Closing Procedures (windows, etc.)
- Burglar Alarm Instructions, if appropriate
- Responsibility of staff/board for Burglar Alarm response, if appropriate
- Daytime access control measures
- Inventory Control
- Key Control
- Local Precinct address, telephone number

Program Operations

- .10 The purpose of this review is to determine whether the delegate agency has the required program operations documentation specified below.
- .11 Review procedures should include ascertaining that the agency maintains a Daily Activity Schedule for each classroom and that the Daily Activity Schedules reflect a variety of planned activities for the children.

Health

- .12 The purpose of this review is to determine whether the delegate agency has the required health documentation and materials specified below.
- .13 Review procedures should include ascertaining that the following documents and materials are present as noted.

A. First Aid Supplies are available in each classroom and/or the Director's office.

B. Health Records-Children

A Health Folder should be on file for each child enrolled in the program. On a test basis, select a sample of records for children participating in the delegate agency program and determine whether:

- Individual Health records are kept; and
- Health records contain the child's Medical History, Screening Medical and Dental Examination Date, Evaluation of this material, and up-to-date information about treatment and follow-up. (See Title of the Code of Federal Regulations, Sections 1304.3 and 1303-4, which describe the required types of Medical and Dental material in further detail.)
- Ascertain whether there is evidence that the delegate agency:
 - A. Forwards, with parent consent, the Health Records to either the school or health delivery system or both, when the child leaves the program;
 - B. Gives parents a summary of the records, which includes information on Immunization and follow up treatment;
 - C. Ensures that parents are told the nature of the data to be collected, the users to which the data will be put, and that the uses will be restricted to the stated objectives.
 - D. Any aspect of the delegate agency Health Records system that do not meet the Performance Standards referred to in Section 3.35 of the "Guide for Audits of Head Start Program Grants" should be described in the Report on Internal Accounting Control.

C. Health Records-Staff

A Health Folder should be on file for all permanent staff and for Substitutes and Volunteer Parents on the day of the audit.

Select a sample of records on the delegate agency program and determine whether each folder for permanent staff and for Substitutes and Volunteer Worker present on the day of the audit includes the following (no specific form is required):

- A statement from a licensed physician that a medical examination was performed within the last 12 months.
- A statement from a private physician or a Department of Health Chest Clinic that Tuberculin Screening was performed within the last 12 months as follows:
 - A. If test results were negative, no other action is required.
 - B. If a positive reaction was noted currently or in the past, then evidence must be present that chest x-ray was obtained.

Property Management

- .14 **Objective:** To determine whether the delegate agency maintains a property management system for the Head Start Program adequate to meet guidelines provided in HEW Regulations, Subpart O.
- .15 **Reference:** 45 CFR 74.130 Subpart O – Property.
- .16 **General Audit Procedures.** In evaluating the delegate agency's Property Management System for this program, the auditor should become familiar with the provisions of the regulations reference above. Review the system and comment in the Report on Internal Accounting Controls on those areas in need of improvement. Audit emphasis should be placed on the following:
 - A. Determine whether the delegate agency maintained and ascertain account for equipment purchased under the grant.
 - B. Evaluate the adequacy of the Property Records maintains and ascertain whether they identify the Equipment, Acquisition Date, Cost, Location and Use of the Property, and Ultimate Disposition if made.

Approvals for Budget Revision

- .17 Objective: To identify and report on instances where the Grant Budget exceeding the Federal Flexibility Guidelines were made by ACS/Central Head Start Office.
- .18 Reference .45 CFR 74.100, Subpart L – Budget Revisions: 45 CFR 74, Subpart 0 – Cost Principles.
- .19 Specific Audit Procedures. These are two requirements necessary to insure quality/fiscal, accountability and maintenance of updated information regarding Staff/Salary changes. Each of these personnel actions should be processed and, in each instance, the rationale for the requisite action should be provided.
- A. Staffing Restructure/Reorganization. Determine whether changes in existing staffing patterns to increase/decrease staff received the required prior written approval from ACS/Central Head Start Office.
- B. Hiring of Consultants. Effective November 1, 1994, delegate agencies will no longer obtain approval from ACS/Head Start prior to contracting with a consultant. Instead, they will assume the Central Office's responsibilities in ensuring that requirements such as; Period and Days of Service, Rate of Pay, Bids/Price Quotes, Credentials, and appropriate services are in place. Delegate agencies should follow the CONSULTANT CHECKLIST (available upon request) provided by ACS/Head Start.
- .20 General Audit Procedures. Approval of a Grant Budget by ACS/Central Head Start office constitutes prior approval for the expenditures or funds for specific items, included in that budget. Delegate agencies have flexibility prior central office approval, provided there are sufficient amount unexpended within other lines or categories. Programs must submit a Budget Modification for any budget shift so that formal Budget Modification can be approved.
- A. Determine that the original Budget and all Modifications are on file at the delegate agency and that all budget changes, and all budget shifts requiring approval, have received approval from ACS/Central Head Start Office.

The following budget shifts are allowed without prior central office approval:

- All Personnel Costs directly resulting from a signed Collective Bargaining Agreement between the City of New York and the Sponsoring Boards;

- All Fringe Benefit Costs (FICA and UIB) related directly to authorized Personnel expenditures;
- Funds to accommodate the above may be modified from Personnel or OTPS items; and
- OTPS items up to 20 percent of the approved budget or \$5,000.

The following budget shifts are not allowed without prior Central Office approval:

- Out-of-town Travel 75 miles or more outside of the city limits or costing \$500 or more;
 - The purchase of equipment that has a useful life of more than two years and the Acquisition Cost of \$500 or more (Section 74.132 of the Federal Government Title 45 Part 74)
 - Repairs or Renovations in excess of \$1,000 (this is an additional requirement of that of the Federal Government);
 - Any Legal Fees require written approval from ACD/Central Head Start office;
 - Utility Cost Increase require written approval;
 - Any Rental increase; and
 - Any purchase of supplies in the last month of the program year, which place that line item over the budget.
- B. If a program shifts funds within the limits set forth above, but has not notified Central Office the program should be cited for a Compliance Exception, not the amount should not be reflected as Questioned Costs.
- C. Except as indicated as above, expenditures in excess of categories are reported as questioned cost. In addition, expenditures in excess of the total budget are reported as “Due from Sponsor” and reflected as Questioned Costs.

Personnel Management

- .21 Objective: To ascertain whether the delegate agency has adopted Personnel Policies and Procedures, as required by program regulations for Head Start employees.
- .22 Reference: 45 CFR 1301.6-2: Personnel Policies and Procedures; 45 CFR 1301.6-3: Comparability of Wages; 45 CFR 1301.6-6: Conflict of Interest; and 45 CFR 1301.6-7: Nepotism.

- .23 Specific Audit Procedures: Effective November 1, 1994, delegate agencies will be assuming additional responsibility for hiring and promoting permanent staff and for upgrading salaries. Approval from ACS/Head Start will be needed prior to hiring for or promoting to the following positions only:

Director
Education Director
Teacher
Fiscal Officer
Secretary/Bookkeeper
Bookkeeper

Hiring or promoting candidates for positions other than those listed above no longer require ACS/Head Start authorization. However, candidates for all expansion positions that are being filled for the first time still need ACS/Head Start approval prior to hiring.

- .24 General Audit Procedures: General Audit procedures include the following:

- A. Determine that the delegate agency has established written Personnel Policies and Procedures covering its employees.
- B. Ascertain whether these policies and procedures have been approved by the Head Start Policy Council of Committee.
- C. Review the Policies and Procedures to determine whether the following required items are contained therein:

Staff Qualifications;

Recruitment and Selection;

Classification of Positions;

Salary Ranges and Increases (including the basis of determining the amounts);

Employee Benefits (including Leave, Holidays, Overtime, and Fringe Benefits);

Expenses incidental to official duties (including Travel and Per Diem);

Staffing Training, Career Development, and Performance Evaluation;

Employee-Management Relations (including Employee Grievance Procedures in the event of Termination and other Adverse Actions);

Employee Conduct (including outside employment and Acceptance of Gifts and Gratuities);

Conflict of Interest and Nepotism.

- D. Determine whether the Personnel Policies and Procedures have been issued to or made available to all Head Start delegate agency employees.
- E. Examine the delegate agency Policies and Procedures concerning basis for establishing salary ranges and increases to determine whether federal requirements are met. (See 45 CFR 1301.6-3 for Requirements on Comparability of Wages.)
- F. Determine whether the delegate agency policy on Conflict of Interest meets the requirements of 45 CFR 1301.6-6.
- G. Ascertain whether the requirements of 45 CFR 1301.6-7 are met by the delegate agency policy concerning Nepotism.
- H. Select, on a test basis, samples of employees Personnel Files and determine whether the written policies appear to be implemented. The review should include; Comparison of Salary levels, Employee Benefits, and reimbursement of official expenses to prescribed policies and procedures.
- I. Disclose, in the Compliance Report, all deficiencies noted as a result of the above procedures.

Policy Groups

- .25 **Objective:** To ascertain whether the delegate agency has established the Head Start policy groups required by Performance Standards.
- .26 **Reference:** 45 CFR 1304.5-2; Parent Involvement Plan content parent participation.
- .27 **General Audit Procedures:** General Audit Procedures include the following:
 - A. Determine whether the delegate agency has set up the Head Start Policy groups required by Appendix B, Paragraph I-1a, of 45 CFR 1304.5-2, usually the following groups are required:

Head Start Center Committee (for each center); Head Start Policy Committee (for each delegate agency).

- B. If the delegate agency has not established the appropriate groups, the auditor should comment on the Current Status and Planned Action for meeting the requirement on the Compliance Report.

Eligibility

.28 **Objective:** Ascertain whether the delegate agency has a system for screening applicants to determine Eligibility.

.29 **Reference:** 45 CFR 1305.6 through 45 CFR 1305.9 (Proposed Regulations).

.30 **General Audit Procedures:** General Audit Procedures include the following:

- A. Review the delegate agency's system for determining Eligibility. The delegate agency's system should provide for a review of all applicants to ensure conformance with Head Start eligibility requirements. The auditor should determine that (applicable CFR Sections noted below):

- Eligibility is determined immediately preceding enrollment of the child (45 CFR 1305.6, "Enrollment and Re-enrollment");
- Head Start enrollees, including handicapped children, are between three years of age and the age of compulsory school attendance (45 CFR 1305.3, "Age Eligibility of Children");
- Evidence is available to support at least 90 percent of the enrollees, including Handicapped children, are from low-income families (45 CFR 1305.4 "Family Income Eligibility");
- When applicants for admission to a Head Start program are received for more children from low-income families than the Head Start program can accommodate, the children from the lowest income families are given preference and those that are Public Assistance recipients are considered as eligible even though the family income exceeds the income guidelines for that size family (45 CFR 1305.4 "Family Income Eligibility");
- Handicapped children who are otherwise eligible are enrolled in the program (45 CFR 1305.5, "Handicapped Children");

- At the time of commencement of an enrollment year when enrollment for other than low-income families exceeds 10 percent, no more children from this category should be admitted until the enrollment of other low-income enrollees again drops below 10 percent (45 CFR 1305.8, "Fees Policy");
 - Available documentation indicates that fees are collected only on a voluntary basis and that and fees collected are accounted for according to federal requirements (45 CFR 1305.9).
- B. The auditor should state in the Compliance Report any aspects of the delegate agency system for determining eligibility that do not meet the above requirements.

Prior Period Approvals

- .31 **Objective:** To ascertain whether the delegate agency has received prior approval in certain areas require by ACS Central Head Start Office. These prior approvals are in addition to those cited in previous sections.
- .32 **Specific Audit Procedures:** in evaluating the delegate agencies management of its program, the auditor should review the following;
- A. **Out-of-town Travel:** Seventy-five miles more outside of the city limits and costing \$500 or more requires prior written approval form ACS/Central Head Start Office.
 - B. **Repairs or Renovations:** In excess of \$1,000 requires written approval from ACS/Central Head Start Office. This is an additional requirement to that of the Federal Government.
 - C. **Any Legal Fees** require written approval from ACS/Central Head Start Office.
 - D. **Utility Costs** increases require written approval from ACS/Central Head Start office.
 - E. **Any Rental Increase** requires prior written approval from ACS/Central Head Start office.
 - F. **Any Purchase of Supplies** in the last month of the program year, which places that line item over the budget, requires prior written approval from the ACS/Central Head Start office.

- G. All Prior Period Adjustments, which increase cost to the City, in excess of \$500 require prior written approval from the ACS/Central Head Start office.

Notes: The Head Start program does not require a delegate agency to maintain separate checking accounts for the various grants.

Audit Requirements

Subgrantees's (In-Kind) Contributions

- .33 Review Procedures should include:
- A. Determining that In-Kind Contributions are properly valued and supported;
and
 - B. Determining that the In-Kind Matching Requirement, per the Contract, has been met.
- .34 If a delegate agency has excess In-Kind Contributions, the excess over the budgeted amount should not be a Question Cost. A note should be added to the budget and actual statement explaining that the budget overage is caused by an excess of In-Kind Contributions.
- .35 Because excess In-Kind Contributions can be used to cover a deficiency in another delegate agency, any excess In-Kind Contributions should be reported in a Footnote, if not included in the budget and actual statement.
- .36 Any In-Kind Contribution Deficiency should also be disclosed in a Footnote.
- .37 In determining the adequacy of the In-Kind requirement, the calculation is based in Actual Expenditures and not Budget Expenditures.

Excel sheet

1. The support provided by Head Start is not affected by individual line item of the C.A.C.F.P. Budget, but rather by the Total Excess of Expenditures over Revenues. Provided the support is within Head Start Budget, the auditor should not question costs related to budget overruns on individual lines of the C.A.C.F.P. Budget.

The revenues for Title-V are in the Head Start column because the revenues cannot be divided (identified) between Head Start and Handicapped programs.

2. Food services support represents the support provided (require) by Head Start or any Excess of Expenditures over Revenues relates to C.A.C.F.P. Funds.

Head Start programs receive direct funding from C.A.C.F.P. The Grant Agreement states that the delegate agency is entitled to receive a Reimbursement Rate per Meal. Cash advanced should be considered as Revenue only when C.A.C.F.P. has advised the delegate agency to apply Advances towards a Reimbursement Claim. C.A.C.F.P. is the prime source for Food Related Costs. Title-V will fund additional Food and Related Costs if the following criteria are met:

- A. The delegate agency is duly licensed.
- B. The desired Utilization which goal is 85%. However, delegate agencies experiencing poor Utilization which is attributable to childhood diseases such as Measles or Chicken Pox, should not be penalize. A delegate agency with a utilization of 80%, and having a Deficit in the CACFP Food Program, may have the deficit supplemented with Title-V Funds. Utilization below 80% may not be supplemented with Title-V Funds without prior approval from Head Start Central Office.
- C. There are not any Administrative Costs (e.g. Director of Fiscal Officer's salary, etc.) included in the C.A.C.F.P. Deficit.
- D. There are enough funds in the Title-V Budget to pick-up the C.A.C.F.P. Deficit.

The delegate agency management should disclose ACS auditors any conditions that may adversely affect Title-V funding (i.e., disallowed C.A.C.F.P. Costs, C.A.C.F.P. Collection Notices, Food Menu Violations, etc.) where an adverse condition exists, C.A.C.F.P. Deficiencies should be reported as Due from Sponsor:

C.A.C.F.P. Revenues (on accrual basis) should normally not exceed related Expenditures, base upon the operations of the Head Start program. Where the auditor encounters Revenues which exceed Expenditures, he should determine that:

- Revenues have been properly recorded (i.e., Advances are disclosed as Liabilities);
- All related Expenditures have been recorded against the Revenue (i.e., accrual for all Unpaid Food Bills, Allocation of Salary and Related Fringe Benefits Costs for all Food Service Personnel).

Cash Advances should be considered as Revenues only when C.A.C.F.P. has advised the delegate agency to apply the Advances towards a Reimbursement Claim. Any Excess of Expenditures over Reimbursements up to the unexpended budget amount is presented as "Due from ACS" as long as the criteria listed above (2a, b, c, & d) are met for the Deficiency of Revenue over the total unexpended budgeted amount, the Receivable is presented as "Due from Sponsor".

Prior year receipts from C.A.C.F.P. can be recorded as Current Year Revenues only if the Revenues have not been previously reported. Prior-Year receipts are recorded as Current-Year Revenues, the amount and reason therefore should be appropriately disclosed in the Footnotes to the Financial Statements.

Obtain confirmation from C.A.C.F.P. of all amounts reimbursed, including the amount of the final reimbursement, if possible. If the final estimate cannot be confirmed, the auditor should; estimate the final reimbursement based on the final month's claim, and disclose in the Footnotes to the Financial Statement; the amount of reimbursement estimated; The period covered by the estimate; The reasons for including the estimate in the audited Financial Statement. To facilitate the Confirmation Process, ACS has sent a notice to all delegate agencies advising them to send final reimbursement requests to C.A.C.F.P. within 30 days of the end of the program year.

- 3) Revenues, Expenditures, Assets, and Liabilities related to Renovations should be separately identified on the required statements. Renovation costs, up to amount approval for payment by ACS, should be reported in the fiscal year incurred whether or not budgeted. If Cash advanced to the delegate agency for Renovations exceeds Approved Expenditures, the excess is presented as "Deferred Revenues-Renovations" and not Fund Balance. The difference between the Annual Budgeted Amount for the contract and the Actual Amount Expended on the Contract is disclosed in the Contractual Agreement Footnote. Obtain confirmation from ACS of Advances and Approved Payments. For Renovations recorded by the delegate agency that were not authorized for payment as of the period ended, such amounts should be questioned and not adjusted in books and records.
- 4) Since the budget cannot be presented on the above statement, a statement similar to the one described above is required by disclosing only approved budget amounts for each program (funding source).
- 5) For liabilities recorded by the delegate agency that related to purchases not received as of the period ended, such amounts should be questioned and not adjusted in the books and records.

Schedules

.41 The following additional Schedules are required, where applicable:

- A. In lieu of the Schedule of Miscellaneous Expenditures in excess of \$100, a Schedule of Other Expenditures should be included containing the following cost categories where applicable:

Telephone
Utilities
Uniform Allowance
Maintenance and Repair
Local Transportation-Staff
Local transportation-Children
Postage
Field Trips
Rental of Equipment
Service Contracts
Insurance (for Automobiles)
Bank Charges
Miscellaneous (minor dollar accounts)

- B. ACS had been advised by the Federal government (HHS) that Expansion Funds must be identified, recorded, and reported on separately from all other funds. Therefore the delegate agencies have been notified to keep separate records for each of the cost categories such as Salaries, Fringe Benefits, Physical Facilities, Consumable Supplies, Equipment, and Other Costs (OTPS).

Accordingly, the audit report should include a separate schedule for any Expansion Funds including the cost categories separately for the audit period.

.42 The following additional information should be contained in the Quantitative Results Schedule:

- Number of Meals Served, and
- Average Daily Attendance.