



THE CITY OF NEW YORK  
ADMINISTRATION FOR CHILDREN'S SERVICES  
DIVISION OF FINANCIAL SERVICES  
AUDIT AND BANKING  
&  
NEW YORK CITY COUNCIL

DISCRETIONARY CONTRACT AUDIT INSTRUCTIONS

Fiscal Year 2016  
for the period covering  
July 1, 2015 to June 30, 2016

## Table of Contents

<b>I.</b>	<b>Introduction</b> .....	1
<b>II.</b>	<b>Audit requirements</b> .....	1
<b>III.</b>	<b>ACS schedules</b> .....	2
<b>IV.</b>	<b>Procurement of Audit</b> .....	2
<b>V.</b>	<b>Financial Reporting Requirements</b> .....	3
<b>VI.</b>	<b>Generally Accepted Government Auditing Standards (GAGAS)</b> .....	3
<b>VII.</b>	<b>Budget</b> .....	4
<b>VIII.</b>	<b>Cost Allocating Plans and Cost Allocation Plans</b> .....	4
<b>IX.</b>	<b>Parent Fees</b> .....	5
<b>X.</b>	<b>Private Tuition Fees</b> .....	6
<b>XI.</b>	<b>Accrued Vacation</b> .....	6
<b>XII.</b>	<b>Due to/Due From ACS</b> .....	7
<b>XIII.</b>	<b>Audit findings follow-up</b> .....	7
<b>XIV.</b>	<b>Report Submission</b> .....	8

## **I. Introduction**

This audit instruction is not a complete manual of procedures nor should it supplant the auditor's judgment of the audit work required in a particular situation. The procedures contained in this instruction cannot cover all circumstances or conditions that would be encountered in an audit of every contract provider. The auditor should use professional judgment to tailor their procedures to meet the conditions of the particular engagement so that the audit objectives may be achieved.

## **II. Audit requirements**

All ACS providers with discretionary contracts, funded by the New York City Council ("City Council") are required to submit a Discretionary Program Audit that covers the accounting period of **July 1, 2015 through June 30, 2016**. These contracts are 100% City Tax Levy. There are no federal funds in these contracts, and **a Single Audit is NOT required**.

The ACS audit instruction for discretionary contracts provide the set of rules required for an audit of the ACS provider's financial statements. The audit must be performed in accordance with the American Institute of Certified Public Accountants' (AICPA) Nonprofit Generally Accepted Accounting Principles (GAAP), Generally Accepted Auditing Standards (GAAS), U.S. Government Auditing Standards (GAO) / Yellow Book and the provider's ACS contract.

### **Discretionary contracted program audits MUST include:**

1. Auditor's Report on Financial Statements including Auditor's opinion on the ACS schedules attached hereto;
2. Financial Statements:
  - a. Statement of Financial Position
  - b. Statement of Activities
  - c. Statement of Functional Expenses
  - d. Statement of Cash Flow
  - e. Notes to Financial Statements.
    - i. Due To/Due From ACS by Fiscal Year
    - ii. Vacation accrual
3. ACS Discretionary supplementary schedules ( set forth in Section III).
4. Independent Auditor's Report on Internal Control over Financial Reporting and Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
5. Independent Auditor's Comments on Compliance and Internal Control Weakness.

Audit reports which do not contain the required components above may affect the provider's VENDEX evaluation.

### III. ACS Schedules

**All ACS schedules below are part of the Audit Report and will be subject to all audit procedures and requirement.**

ACS needs the required schedules from discretionary providers for proper identification and accountability of City Council funds for each and every program. These schedules are also needed for the close-out of each contract and to determine balance due, if any, to "City Council" at the end of the fiscal year.

Each of the following schedules must be prepared separately for each program.

Statement of Revenues and Expenditures Budgeted & Actual : Consolidated	Schedule 1
Fixed Assets Inventory	Schedule 2
Quantitative Program Results	Schedule 3

### IV. Procurement of Audit

The requirements in the selection of an auditor are as follows:

1. Small audit firms and audit firms owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in contracts awarded.
2. **The audit firm must be independent and licensed to practice in New York State. The audit firm must be on the New York City Comptroller's "Pre-Qualified CPA List".** The current "Pre-Qualified CPA List" can be located on the New York City Comptroller's website.
3. To avoid a conflict of interest in selecting an auditor, the provider may not select a CPA audit firm that is currently working with the provider or that was engaged in consulting or any business management undertaking with the provider in the Fiscal Year 2016.
4. ACS recommends that each provider reach out to a minimum of 3 CPA firms when submitting request proposals for audit services. In evaluation of these proposals, providers must take into consideration the responsiveness of individual audit firms, the relevant experience of the audit firm and its staff, the availability

of said staff with professional qualifications and technical abilities, the results of any external quality control and/or peer reviews, and the price.

## **V. Financial Reporting Requirements**

Agency providers are to make the following reports available upon request for ACS review:

- Organizations Financial Policy and Procedures Manuals
- Cost Allocating Plan and Cost Allocation Plan
- ACS Schedules (refer to attached Schedules 1-3)
- Fundraising reports, actual vs. projections for donations, status report on all foundation proposal
- Payroll tax reports
- Annual Federal forms including IRS 990 and CHAR 500
- Audited financial statements
- Management letter from auditor
- Minutes of Board Meetings
- Other documents that the auditor may find relevant to the audit

## **VI. Generally Accepted Government Auditing Standards (GAGAS)**

The Discretionary contract audit must be performed in accordance with GAGAS. GAGAS contains requirements and guidance dealing with ethics, independence, and auditor's professional judgment, quality control, the performance of fieldwork, and reporting.

1. Ethics, independence and auditor's professional judgment – the audit firm and its staff must be proficient and independent when performing government audits. The audit staff must maintain their proficiency by enrolling in a program of continuing education. The audit firm must have a quality of control in place and have undergone a recent peer review.
2. Quality control – Each audit organization performing audits in accordance with GAGAS must establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements.
3. Performance of fieldwork – Auditors performing financial statements audits are required to plan the audits, supervise the staff and review the auditee's internal control. In addition, the auditors must gather sufficient and competent evidence to support their findings.
4. Reporting – Audit reports are prepared in accordance with GAGAS, which incorporates the AICPA standards. GAGAS requires the auditors to state in the report whether or not the provider's financial statements are presented fairly in all material respects in accordance with Generally Accepted Principles (GAAP).

5. AICPA Statements on Auditing Standards – The AICPA issues the Statements on Auditing Standards (SAS) to provide clarification on the application of the standards of fieldwork and reporting. The auditors must refer to them in conducting the audits.
6. Internal Control and Compliance – In conducting the audit, the auditors must evaluate the internal control over the provider’s financial statements and assess the level of control risk. Likewise, the auditors must determine if the provider complied with laws, regulations and the provisions of the contracts, or grant agreements.

## **VII. Budget**

1. The New York City Council and ACS approve the budget for each program.
2. The auditor is to ascertain that the provider has provided him/her with the original budget and all modifications to the original budget. The audit should not be placed on hold when a budget modification(s) is pending.
3. The contracted providers have the flexibility to shift budget amounts between certain budget lines or categories without prior ACS approval, provided there are sufficient funds within other lines or categories.
4. The following budget shifts are allowed without prior ACS approval:
  - Funds can be shifted between line items within the “Total Personnel” category.
  - Funds can be shifted between the “Total Personnel” category and the “Total Other Non-Itemized OTPS.”
  - Categories that have been blocked in the organization’s budget cannot be moved without ACS approval.

## **VIII. Cost Allocating Plans and Cost Allocation Plans**

1. ACS reserves the right to require the providers to fairly and accurately allocate costs which are attributable to the operation of two (2) or more programs with distinct funding sources by a method which represents the benefit of such costs to each program. In the event that ACS determines the cost allocation plan is advisable, the provider shall, within thirty (30) days of notification by ACS, develop and deliver a cost allocation plan for ACS approval.
2. In the “Notes to Financial Statements,” the auditor shall indicate if the provider has a *cost allocating plan* or a *cost allocation plan* and if the plan was implemented.

Cost Allocating is the process of allocating costs between direct/ programmatic and indirect/administrative costs which taken together equal the total cost of the program. Cost allocating:

- Ensures costs are reasonable;
- Identifies each component of the budget as either direct or indirect;
- Identifies how money is spent in connection with a program and how much is spent to administer it; and
- Ensures funds are correctly spent by funding source.

A Cost Allocation Plan is a written account of the methods used by a provider to allocate costs to its various funding sources.

- A cost allocation plan is the process of assigning two (2) or more programs the costs of an item shared by the program.
- The goal is to ensure that each program bears its fair share and only its fair share, of the total cost of the item.

3. Notwithstanding any provision in this section to the contrary, ACS further reserves the right to withhold any payments to the providers for allocating costs in the event that ACS deems the Cost Allocation Plan and/or Cost Allocating Plan unsatisfactory in whole or in part; or determines that such allocated costs have been incorrectly determined, are not allowable or necessary, or are not properly allocated pursuant to this agreement and/or approved cost allocation/cost allocating plan.
4. All books, general ledger, and records regarding allocated costs are subject to audit pursuant to this section of this agreement as are all other costs, and with regard to the maintenance of separate and accurate books and records, and with regard to the retention period of books and records.

## **IX. Parent Fees**

Fees collected for children enrolled in the City Council Discretionary Program must be reported in the financial statements. Fees receivable should always remain on the Statement of Financial Position of the providers as “Due from Provider Organization” The auditor should review the system of internal control surrounding the collections of parents' fees and report any weaknesses in the audit report on internal control. The auditor should also determine if the provider has a debt write-off policy for revenue not collected.

Parents' fees receivable must be shown in the Statement of Financial Position showing balances outstanding for the current year and be separately detailed in the Notes to Financial Statements.

Fees collected and the expenditures supported by these fees should also be reported in a separate column on Schedule I in the section for other revenue.

## **X. Private Tuition Fees**

1. It is MANDATORY to include private tuition funds in the audit report. ACS will not accept an audit report in which there is no accounting for private tuition funds.
2. The private tuition funds, if they exist, must be audited. Revenues and expenditures must be included in the audit report. The audit report will be considered "INCOMPLETE" without the required accounting or relevant statement.
3. The auditor should receive written representation from the provider that the provider has provided the auditor with all the private tuition bank accounts and books or that there is **NO** private tuition funds and make a note thereof in the audit report.
4. Private tuition funds must be segregated from ACS contracted funds, and may be expended for any of the expenditures by the ACS budget categories.

## **XI. Accrued Vacation**

As per the below contract language included in all Discretionary contracts, ACS will not pay any unused vacation time at year-end. Providers are encouraged to utilize all vacation benefits.

*Contract Agreement Article III Section 3.05 The Contractor and not the Department (ACS) shall be responsible for the payment of any accrued vacation and sick leave for the Contractor's staff during the term of their employment and upon termination of their employment.*

If vacation time is accrued, it must be reported in both the notes to the financial statements as well as the specific line item on Schedule I – Revenues and Expenditures Budget and Actual Consolidated.

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**XII. Due to/Due From ACS**

The notes to the Financial Statements should include the amounts Due to or Due from ACS for the current Fiscal Year. The amounts due should be presented in a format that allows for the calculation of that amount: all revenues received (including payments from ACS and disability income) and expenditures made for the Fiscal Year should be itemized. See below for example.

Current year program	
ACS Advance/Payments	\$XXX
Disability and Other Income	\$XXX
Expenditures	\$XXX
Due to/Due from ACS	\$XXX

**XIII. Audit findings follow-up**

The provider is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the provider shall prepare a summary of schedule of prior audit findings. The provider shall also prepare a corrective action plan for current year audit findings. The summary schedule of prior audit findings and the corrective action plan shall include the reference numbers the auditor assigns to audit findings.

A. Summary schedule of prior audit findings

The summary schedule of prior audit findings shall report the status of all audit findings included in the prior audit’s schedule of findings and recommendations relative to the Federal awards. The summary schedule shall also include audit findings reported in prior audit’s summary schedule of audit findings except audit findings listed as corrected or no longer valid or not warranting further action.

B. Corrective Action Plan

At the completion of the audit, the provider shall prepare a corrective action plan to address each audit finding included in the current year auditor’s report. The corrective action plan shall provide the name of the contact person responsible for the corrective action, the corrective action planned, and the anticipated completion date. If the provider does not agree with the audit findings or believes corrective action is not required, then the corrective action plan shall include explanation and specific reasons.

#### **XIV. Report Submission**

The following are the distribution requirements:

One (1) bound copy and one (1) PDF copy (sent by email) of the audit report shall be sent to the address below:

Marcia Gilliard, Assistant Commissioner  
Finance / Audit and Banking Services  
150 William Street Rm 10-Q3  
New York, NY 10038

And a PDF copy to [denise.borak@acs.nyc.gov](mailto:denise.borak@acs.nyc.gov)

The submission of audit report is due by **March 31, 2017**.

*For questions about the instructions please contact Denise Borak at 212-676-8880.*

**ABC DAY CARE CENTER, INC.**  
**STATEMENT OF REVENUES AND EXPENDITURES - BUDGETED AND ACTUAL**  
**ACS Funded - Discretionary**  
**For the year ended June 30, 2016**

BUDGET CATEGORIES	Budget									
	Discretionary	Discretionary Funds	Parent Fee	Private Fees	Name Funding Source (1)	Name Funding Source (2)	Name Funding Source (3)	TOTAL	Variance	Questioned Cost
<b>Revenue:</b>										
Discretionary revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CACFP	-	-	-	-	-	-	-	-	-	-
Revenue Source (1)	-	-	-	-	-	-	-	-	-	-
Revenue Source (2)	-	-	-	-	-	-	-	-	-	-
Other funding source revenue	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Expenditures</b>										
<b>Personnel cost</b>										
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FICA	-	-	-	-	-	-	-	-	-	-
Workers compensation	-	-	-	-	-	-	-	-	-	-
Unemployment insurance	-	-	-	-	-	-	-	-	-	-
Pension	-	-	-	-	-	-	-	-	-	-
Welfare fund	-	-	-	-	-	-	-	-	-	-
Health Insurance	-	-	-	-	-	-	-	-	-	-
Accrued Vacation	-	-	-	-	-	-	-	-	-	-
<b>Total personnel cost</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Facilities cost</b>										
Rent	-	-	-	-	-	-	-	-	-	-
Property Taxes	-	-	-	-	-	-	-	-	-	-
Maintenance and repairs	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-
<b>Total facilities cost</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other than personnel services (OTPS)</b>										
Supplies	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-	-
Audit	-	-	-	-	-	-	-	-	-	-
Consultant	-	-	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-	-
Payroll	-	-	-	-	-	-	-	-	-	-
Telephone	-	-	-	-	-	-	-	-	-	-
Internet	-	-	-	-	-	-	-	-	-	-
Uniform	-	-	-	-	-	-	-	-	-	-
Stipend - Family child care	-	-	-	-	-	-	-	-	-	-
Bank Charges & fees	-	-	-	-	-	-	-	-	-	-
<b>Total OTPS</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL DISCRETIONARY COST</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Excess (deficiency) of revenue over (under) expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to financial statements.

**ABC DAY CARE CENTER, INC.**  
**Schedule of Equipment Inventory**  
**June 30, 2016**

**SCHEDULE 2**

<u>Description</u>	<u>Quantity</u>	<u>Serial Number</u>	<u>Date Purchased</u>	<u>Cost</u>
<u>Current Year Purchases</u>				\$ -
<u>Prior Year Inventory</u>				\$ -
<b>Total Equipment Inventory</b>				<u>\$ -</u>

**ABC DAY CARE CENTER, INC.**  
**Schedule of Quantitative Program Results**  
**For the year ended June 30, 2016**

**SCHEDULE 3**

**ENROLLMENT**

1	Contracted slots per site	
	a) Name of sites	-
	b)	-
	c)	-
	d)	-
	Total	<u>-</u>
2	Number of classrooms per site	
	a)	-
	b)	-
	c)	-
	d)	-
	Total	<u>-</u>
3	Number of children enrolled by site	
	a)	-
	b)	-
	c)	-
	d)	-
	Total	<u>-</u>
4	Number of children in attendance by site	
	a)	-
	b)	-
	c)	-
	d)	-
	Total	<u>-</u>
5	The average attendance for contract by site (#4 divided by #3)	
	a)	
	b)	
	c)	
	d)	
	Total Average	<u>0%</u>

**COST**

1	Total expense for the contract. (Total EL expense in Schedule 1-A)	\$ -
2	Total expense by site	
	a)	\$ -
	b)	-
	c)	-
	d)	-
	Total	<u>\$ -</u>
3	Average cost slots (Total expenses/Total attendance by sites)	
4	Average cost per site/Total cost per site/Attendance by site	
	a)	
	b)	
	c)	
	d)	
	Total	<u>\$ -</u>