



**DIVISION OF FINANCIAL SERVICES
AUDIT AND BANKING**

**FISCAL YEAR 2018
DISCRETIONARY CONTRACT
AUDIT INSTRUCTIONS**

**FINANCIAL STATEMENTS
ACS SUPPLEMENTAL SCHEDULES**

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Introduction

The ACS Audit Instructions for the fiscal year 2018.

- **FY 2018 Audited Financial Statements and Audited ACS Supplementary Schedules are due January 31, 2019**
- **FY 2018 Single Audits are due March 31, 2019**

All Audited Financial Statements and ACS Audited Supplementary Schedules, as well as the Single Audit, must follow the Audit instructions for that Fiscal Year. Financial Statements must include all of the required components and audited schedules to be considered complete by due date.

These audit instructions are not a complete manual of procedures nor should it supplement the auditor's judgment of the audit work required. The procedures contained in these instructions are not intended to 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.

The Fiscal Year 2018 ACS Audit Instructions and any updates can be found on ACS public website: <http://www1.nyc.gov/site/acs/early-care/early-learn-nyc-finance-documents.page>

How do you determine whether you are a Federal Subrecipient or a Contractor?

- **Type of Funding**
- **Amount of Funding**

Designation of Funding

Federal Subrecipient

- Head Start
- Community Development Block Grant (CDBG)

Contractor

- NYS Child Care Block Grant (Child Care)
- Foster Care
- Preventive Services

Requirements

Federal Subrecipient

- Audited Financial Statements
(*due January 31, 2019*)
- Audited ACS Supplementary Schedules
(*due January 31, 2019*)
- Attestation on Single Audit Exemption
(if your agency expends less than \$750,000 in Federal Subrecipient funds)
(*due January 31, 2019*)
- Single Audit
(if your agency expends \$750,000 or more in Federal Subrecipient funds)

Contractor

- Audited Financial Statements
(*due January 31, 2019*)
- Audited ACS Supplementary Schedules
(*due January 31, 2019*)

I. Audit and Financial Reporting Requirements

All Providers (Contractors and Sub-recipients) are required to have an annual audit of their Financial Statements and ACS Supplementary Schedules due January 31, 2019. Sub-recipients are also required to submit a Single Audit due March 31, 2019, if they meet the Single Audit threshold of \$750,000 or more of total expenditures under Federal awards.

The audit must be performed in accordance with Generally Accepted Accounting Principles (GAAP), Generally Accepted Government Auditing Standards (GAGAS), Non-profit Auditing Standards, and ACS Audit Instructions.

- **Audited Financial Statements must include:**
 - Independent Auditors' Report
 - Financial Statements
 - Statement of Financial Position
 - Statement of Activities
 - Statement of Cash Flows
 - Statement of Functional Expenses (optional)
 - Notes to Financial Statements
 - Auditors' report on compliance and findings
 - Auditors' report on internal controls over financial reporting and findings
 - Schedule of Findings
 - Schedule of Prior Year Findings
 - Corrective Action Plan (where applicable)
- **Audited ACS Supplementary Schedules** (note: all schedules must be tied to the general ledger and accurately reflect the amount in the appropriate cost centers at the year close)

Audit and Financial Reporting Packages which do not contain the required Opinions, Statements and Schedules will be classified as incomplete and may affect a provider agency's fiscal performance evaluation.

II. Digital Audit Documentation Policy

All Certified Public Accountants (CPAs) or Auditors contracted by provider agencies to conduct audits of Human Service Contracts, must collect documents during the audit planning exclusively through the HHS Accelerator Document Vault.

The Document Vault may also be used to transfer additional documents needed by the CPA or authorized auditor during the course of the audit. This recommendation excludes audit sample documents that would be reviewed on site by the auditor.

FY 2018 ACS Audit Instructions for Financial Statements and Single Audit

Digital Audit Documentation Policy includes:

- Most recent Char 500
- Most recent 990
- Most recent audited Financial Statement and Single Audit if applicable
- Certificate of Incorporation
- Corporate by-laws
- IRS determination letter (501c3)
- All correspondence with the IRS regarding tax exempt status from the last 3 years
- New York State sales tax exemption certificate
- Organizational charts for the Organization and for accounting department.
- Personnel policy manual
- Accounting manual or procedure manual for the accounting department. If too voluminous, copy of table of contents only
- Board of Directors List (showing titles if they are officers)
- Conflict of Interest policy
- Board Minutes
- Anti-Nepotism policy
- Agreements/policies in effect for fringe benefits claimed to the contract (i.e. Retirement benefit, health insurance etc.)
- Insurance policies in effect (top sheets only showing the summary of coverage)
- All required payroll tax returns
- Consulting agreements
- Lease Agreements and mortgages
- Claiming Billing Reports if reimbursement-based
- Budget and budget modifications if reimbursement-based
- Bank reconciliation statements
- Copies of any audits from: IRS, NYS Charities Bureau or other government sources conducted in the last 3 years
- Check signatories/staff authorized to conduct banking
- Chart of accounts including funds maintained (restricted, etc.) and cost centers; final trial balance from previous fiscal year
- A list of who has an Organization credit card, and type of card (Amex, etc.)
- Copies of audited Independent CPA audit reports
- Single Audit and management letter
- Cost allocation methodology for PS and OTPS

III. Procurement of Audit

The City of New York Procurement Policy Board rule §3-10(k) states: “A Prequalified List (PQL) of auditors shall be maintained by the Comptroller in accordance with this section. An agency seeking to award an audit contract shall solicit only those suppliers that have been prequalified by the Comptroller.”

Please refer to NYC Comptroller approved CPA list at:

<http://comptroller.nyc.gov/general-information/prequalified-cpa-list/>

ACS recommends that each agency reach out to a minimum of 3 CPA firms when requesting proposals for audit services.

IV. Generally Accepted Government Auditing Standards (GAGAS)

GAGAS, commonly referred to as the "Yellow Book", are produced in the United States by the Government Accountability Office (GAO). The standards apply to both financial and performance audits of government agencies.

In conducting a single or program-specific audit, the auditors must follow GAGAS, which is promulgated by the Comptroller General of the United States. GAGAS includes general standards, fieldwork standards, and reporting standards.

- **General Standards**

The General Standards contain the following requirements:

- The audit firm and staff must be proficient and independent when performing Single Audit or other government audits;
- The audit staff must maintain their proficiency by enrolling in a program of continuing professional education; and
- The audit organization must have a system of quality control in place and have undergone a recent peer review.

- **Field Work Standards**

Under GAGAS, these are the same as the American Institute of Certified Public Accountants (AICPA) standards. They require the auditors performing financial statement audits to plan the audits, supervise the staff, and review the auditee's internal control. In addition, the auditors must gather sufficient and appropriate evidence to support their findings and conclusions.

- **Reporting Standards on Financial Statements**

When auditors issue a financial report on an agency, they must prepare the report in accordance with GAGAS, which incorporates the AICPA standards. GAGAS requires the auditors to state in the report whether or not the agency's financial statements are presented fairly in all material respects in accordance with Generally Accepted Accounting Principles (GAAP).

- **AICPA Statements on Auditing Standards**

The AICPA issues the Statements on Auditing Standards (SAS) to provide clarification on the application of the standards of field work and reporting. The auditors must refer to them when they are conducting audits.

- **Internal Control and Compliance**

In addition to the requirements of GAGAS the auditors conducting the audit must evaluate the internal control over the agency's Federal awards and assess the level of control risk for the major programs. Likewise, the auditors must determine if the agency complied with laws, regulations and the provisions of contracts or grant agreements.

V. Follow-up: Summary Schedule of Prior Audit Findings and Corrective Action Plan

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

- **Summary Schedule of Prior Audit Findings**

The summary schedule of prior audit findings must report the status of all audit findings that are included in the prior audit's schedule of findings and questioned costs. The summary schedule must also include audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings that were fully corrected or when the agency believes the audit findings are no longer valid or do not warrant further action, the agency must describe the reasons for the position in the summary schedule.

- **Corrective Action Plan**

At the completion of the audit, the agency must prepare the corrective action plan to address each audit finding included in the current year auditor's reports. The corrective action plan must provide the name(s) and title(s) of the contact person(s) responsible for the corrective action, the corrective action planned, and the anticipated completion date. If an agency's officials do not agree with the audit findings or believe the corrective action is not required, then the corrective action plan must include an explanation and specific reasons. Documented corrective action plan should be taken on all audit findings. This includes a report on corrective action steps taken for prior audit findings.

VI. Discretionary Audit Financial Reporting Requirements

- **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

VII. Discretionary Program Requirements

- **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.

- **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.

FY 2018 ACS Audit Instructions For Financial Statements

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 as are all other costs and with regards to the management and retention of separate and accurate books and records.

FY 2018 ACS Audit Instructions For Financial Statements

- **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 collection of parent 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.

Parent 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.

D. 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 utilized for any of the expenditures by the ACS budget categories.

FY 2018 ACS Audit Instructions For Financial Statements

E. 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.

F. 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

VIII. Submission of Audit and Financial Reporting Requirements

One (1) bound copy and one (1) PDF copy of the Audit and Financial Reporting Package must be sent to the ACS Early Learn Contract Audit Unit. The bound copy must be addressed to:

Cheryl Brathwaite, Special Assistant
Administration for Children's Services
Division of Financial Services, Audit and
Banking 150 William Street, 10th floor
New York, New York 10038-2614

The PDF unsecured copy must be sent by email to Cheryl.Brathwaite@acs.nyc.gov

If an agency does not comply with the requirements, there may be a negative impact on the yearly Fiscal Administration rating.

ATTACHMENTS

ABC DAY CARE CENTER, INC.
STATEMENT OF REVENUES AND EXPENDITURES - BUDGETED AND ACTUAL
ACS Funded - Discretionary
For the year ended June 30, 2018

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
Revenue:										
Discretionary revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
CACFP	-	-	-	-	-	-	-	-	-	-
Revenue Source (1)	-	-	-	-	-	-	-	-	-	-
Revenue Source (2)	-	-	-	-	-	-	-	-	-	-
Other funding source revenue	-	-	-	-	-	-	-	-	-	-
Total Revenue	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Expenditures										
Personnel cost										
Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
FICA	-	-	-	-	-	-	-	-	-	-
Workers compensation	-	-	-	-	-	-	-	-	-	-
Unemployment insurance	-	-	-	-	-	-	-	-	-	-
Pension	-	-	-	-	-	-	-	-	-	-
Welfare fund	-	-	-	-	-	-	-	-	-	-
Health Insurance	-	-	-	-	-	-	-	-	-	-
Accrued Vacation	-	-	-	-	-	-	-	-	-	-
Total personnel cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Facilities cost										
Rent	-	-	-	-	-	-	-	-	-	-
Property Taxes	-	-	-	-	-	-	-	-	-	-
Maintenance and repairs	-	-	-	-	-	-	-	-	-	-
Utilities	-	-	-	-	-	-	-	-	-	-
Total facilities cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other than personnel services (OTPS)										
Supplies	-	-	-	-	-	-	-	-	-	-
Equipment	-	-	-	-	-	-	-	-	-	-
Postage	-	-	-	-	-	-	-	-	-	-
Audit	-	-	-	-	-	-	-	-	-	-
Consultant	-	-	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-	-
Payroll	-	-	-	-	-	-	-	-	-	-
Telephone	-	-	-	-	-	-	-	-	-	-
Internet	-	-	-	-	-	-	-	-	-	-
Uniform	-	-	-	-	-	-	-	-	-	-
Stipend - Family child care	-	-	-	-	-	-	-	-	-	-
Bank Charges & fees	-	-	-	-	-	-	-	-	-	-
Total OTPS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL DISCRETIONARY COST	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (deficiency) of revenue over (under) expenditures	<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, 2018

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>				\$ -
Total Equipment Inventory				<u><u>\$ -</u></u>

ABC DAY CARE CENTER, INC.
Schedule of Quantitative Program Results
For the year ended June 30, 2018

SCHEDULE 3

ENROLLMENT

1	Contracted slots per site	
	a) Name of sites	
	b)	
	c)	
	d)	
	Total	_____

2	Number of classrooms per site	
	a)	
	b)	
	c)	
	d)	
	Total	_____

3	Number of children enrolled by site	
	a)	
	b)	
	c)	
	d)	
	Total	_____

4	Number of children in attendance by site	
	a)	
	b)	
	c)	
	d)	
	Total	_____

5	The average attendance for contract by site (#4 divided by #3)	
	a)	
	b)	
	c)	
	d)	
	Total Average	

COST

1	Total expense for the contract. (Total EL expense in Schedule 1-A)	\$
2	Total expense by site	
	a)	\$
	b)	
	c)	
	d)	
	Total	_____
		\$
		=====
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	_____
		\$
		=====