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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 15, 2000

Mr. Nicholas Scoppetta
Commissioner
New York City Administration for
Children's Services
150 William Street, 10th Floor
New York, NY 10038

Re: Internal Controls Over Payments
to Foster Care Contractors
Report 98-N-9

Dear Mr. Scoppetta:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article III of the General Municipal Law, we audited the internal controls over payments made by the Administration for Children's Services to foster care contractors for services provided during the period July 1, 1996 through June 30, 1997.

A. Background

The Administration for Children's Services (ACS) was created by the Mayor's Executive Order #26 in January 1996. ACS focuses on the needs of New York City's children who have been neglected, abused or abandoned. These children may be placed by ACS in New York State's Foster Care Program. The children in this program are cared for by relatives, foster parents (providers) or not-for-profit agencies (contractors), who are reimbursed for the care provided to the children. The children may eventually be returned to their natural parents, kept in foster care, or made available for adoption.

ACS is responsible for the health and safety of children in foster care and for reimbursing foster care contractors. In these activities, ACS is overseen by the New York State Office of Children and Family Services (OCFS), which reimburses ACS for a portion of the payments made to the over 60 foster care contractors. Generally, New York State is responsible for about 25 percent of all Foster Care Program costs, New York City is responsible for about 25 percent, and the Federal government is responsible for about 50 percent. Most of these costs are incurred by foster care contractors, who can

be reimbursed for eligible expenses relating to the care provided to the children (such as housing, food and clothing expenses). The remaining costs relate to administrative activities such as case monitoring. The maximum reimbursement rates for direct care costs and administrative costs are set by OCFS.

The care of foster children is managed by caseworkers. Some of these caseworkers are employed directly by ACS, but most are employed by contractors overseen by ACS. For example, as of June 1998, 30,640 of the 40,909 foster children (75 percent) in New York City were managed by contracted caseworkers. The contractors employing these caseworkers are also responsible for overseeing many of the foster care providers. The contractors submit payment requests to ACS and receive advance payments from the City, which in turn will receive reimbursement from the State and Federal governments. During the fiscal year ended June 30, 1998, 65 such contractors were paid about \$575 million by ACS. These payments included advances for direct care costs that passed through the contractors to foster care providers. ACS reported that in June 1997, 41,981 children were in foster care and 63 ACS contractors served 29,466 of those children at a cost of \$566.7 million.

The contractors are paid on the basis of periodic requests for payments submitted to ACS. According to OCFS regulations, expenditures should be supported by the contractor's financial records, and the records should periodically be reviewed by ACS to ensure that the payments are supported by the records. If total payments are not supported in the contractor's records and cannot otherwise be documented by the contractor, the amount paid should be recovered from the contractor.

B. Audit Scope, Objective and Methodology

We reviewed the controls established by ACS over payments to foster care contractors for services provided during the period July 1, 1996 through June 30, 1997 by selecting a judgmental sample of four contractors. We focused on the payments made to these four contractors because they provided all services offered under the Foster Care Program. The objective of our financial-related audit was to determine whether ACS has established adequate controls to provide reasonable assurance that payments made to foster care contractors are supported by the contractors' records and are otherwise in accordance with the requirements of the contracts. While our audit was not intended to specifically evaluate the accuracy of the payments made to the four contractors during our audit period, we did identify selected potential overpayments to illustrate the consequences of internal control weaknesses.

To accomplish our objective, we interviewed officials at ACS and the four selected contractors. We also examined records maintained by the four contractors, such as accounting records, canceled checks, receipts for purchases, and other documents relating to payments made to foster care providers and foster children.

As is our practice, we notify agency officials at the outset of each audit that we will be requesting a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy and competence of the evidence provided to the auditors during the

course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. In the representation letter, agency officials assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. Agency officials further affirm that either the agency has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors.

However, officials at the New York City Mayor's Office of Operations have informed us that, as a matter of policy, Mayoral agency officials will not provide representation letters in connection with our audits. As a result, we lack assurance from ACS officials that all relevant information was provided to us during this audit. We consider this refusal to provide a representation letter to be a scope limitation on our audit. Therefore, readers of this report should consider the potential effect of this scope limitation on the findings and conclusions presented in this report.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of ACS which are included in our audit scope. Further, these standards require that we understand ACS' internal control structure and compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest possibility for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

C. Internal Control and Compliance Summary

Internal controls are the integration of the activities, plans, attitudes, policies and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its mission. Our evaluation of internal controls identified significant weaknesses at ACS and the four contractors. These weaknesses are discussed in detail in the following section of this report.

D. Results of Audit

We identified material weaknesses in ACS' internal controls over payments to foster care contractors. ACS pays monthly advances to contractors based on the contractor's report of the number of days that children were in care as well as approved per diem rates based on expenses reported by the contractor. However, ACS did not conduct periodic audits of contractor records to ensure that the contractors' records contained support for the payment requests. As a result, inaccurate payments were less likely to be detected. When we compared ACS payment records to the expense records maintained by four selected contractors, we found that three of the four contractors were paid more than was indicated in their expense records. These potential overpayments totaled \$1,037,458.

In its response, ACS agreed that internal controls should be monitored and guidance provided to the contractors. Accordingly, all foster care audits will now evaluate the controls at each contractor. ACS will also review the contractors' audited financial statements and internal control reports. ACS further advised that it is developing a fiscal evaluation process to monitor contractor performance. This evaluation should include an evaluation of internal controls and address many of the problems noted in this report.

In addition, ACS pointed out that its contracts with foster care agencies grant it six years and 90 days to audit foster care contractors. Therefore, it can audit and recoup any potential overpayments from our sampled period. ACS added that it now has a policy of contracting for annual audits of foster care contractors.

1. Periodic Audits of Contractor Records

According to OCFS regulations, ACS is to conduct periodic audits of the records maintained by each foster care contractor to ensure that the requests for payments submitted by the contractors are supported by the records. However, ACS had not conducted such audits since 1992. ACS advised us that its Finance, Audit and Budget Unit performs interim payment reconciliations regularly. However, while these interim reconciliations verify that the contractor was paid the correct amount based on information reported by the contractor, they do not involve a verification of the contractor's records. As a result, ACS has no assurance that the information submitted by the contractors is supported by the contractors' records. To the extent that the expenditures are not supported by the records, contractors may be paid for services that were not provided and reimbursed for expenses that were not incurred.

To determine whether the requests submitted by contractors were consistent with the contractors' records of expenses, we selected four contractors and compared the amounts paid per ACS' records to these contractors for services provided during the year ended June 30, 1997 to the contractors' records of expenses for that year. According to ACS records, the four contractors were paid a total of \$46.9 million. However, according to the contractors' records, the foster care expenses incurred totaled only \$45.8 million. As a result, three of the four contractors received potential overpayments of \$1,037,458, as follows:

Contractor	Amount Advanced by ACS	Contractors' Expenditures	Potential Overpayments
A	\$13,060,251	\$13,060,251	\$0
B	\$6,527,303	\$6,148,886	\$378,417
C	\$17,804,264	\$17,245,934	\$558,330
D	\$9,484,937	\$9,384,226	\$100,711
Total	\$46,876,755	\$45,839,297	\$1,037,458

Had ACS audited these four contractors as required, these inconsistencies could have been identified and resolved, and the potential overpayments could have been recovered by ACS. We note that these findings relate to only one year, and to only four of the more than 60 contractors overseen by ACS that year.

ACS officials explained that there were numerous reasons why contractors may have been paid more than their expense records supported. For example, it noted that stipends and administrative expenses are based on estimates, the correct amounts cannot be determined until an audit of the contractor is conducted. We did not conduct complete audits of the contractors' records, to determine why the amounts paid to three of the contractors were not consistent with the contractors' expense records. (We recommend that such audits be conducted by ACS.) However, we did audit selected contractor records and were still able to identify the reasons for the inconsistencies, some of which were not related to estimated stipends or administrative expenses. We note, instead, that these inconsistencies resulted from internal control weaknesses at the contractors.

We found that in a number of instances, contractors submitted requests for payments for expenses that were not incurred. For example, three of the contractors advanced foster care providers a portion of the initial clothing allowance for the children in their care, but submitted requests for the entire amount of the clothing allowance. We identified a total of \$11,351 in such potential excess payments for clothing expenses. ACS officials indicated that they have instructed the contractors to improve documentation of clothing allowances. They also stated that future audits by ACS would review clothing receipts and recoup any undocumented payments. Additionally, ACS wrote letters to the contractors and advised them to take corrective action.

In addition, foster children who participate in the Independent Living Program are eligible to receive monthly stipends. The claims submitted by one of the contractors related to stipends for children who were expected to participate in this program, but who in fact, did not participate in the program. While the contractor voided the stipend checks intended for these children, it did not adjust its payment request to ACS. As a result, the contractor was reimbursed for stipends that were never paid. We reviewed 66 stipends and identified a total of \$202 in such reimbursements for this contractor. While the amount of excess reimbursement was small, it illustrates an internal control weakness which should be addressed.

We also found that, contrary to the requirements of the Independent Living Program, one of the contractors was not immediately paying the monthly stipends to the children in the program so that they could learn money management skills, but was depositing the stipends into a bank account, according to the contractor the money was disbursed to the children when they left the program. ACS officials advised us that they have instructed the contractor to adhere to procedures for Independent Living stipends.

ACS responded that it has expanded the scope of foster care audits to include various expenditures such as Independent Living funds. It plans to recoup any overpayments when those audits are conducted. Furthermore, ACS advised us that it has written letters to the contractors cited in this report and advised them to take corrective action.

We also identified a number of instances in which contractors submitted claims for expenses that were not documented. For example, foster care providers that receive the initial clothing allowance are required to submit receipts for the purchased clothing to the contractors. However, three of the contractors could not provide receipts for clothing allowance payments totaling \$32,325. At one of the contractors, receipts could not be provided for 28 of the 37 payments we selected for review (totaling \$10,695). At another contractor, receipts could not be provided for a \$3,500 payment that was made to just one foster care provider. In addition, the monthly stipends for the children in the Independent Living Program are supposed to be paid directly to the children, so that they can learn how to manage money. However, one of the contractors could not document the payment of this stipend to 44 of the 53 children we selected for review (the undocumented payments totaled \$1,137), and another contractor could not document that it had paid out any of the stipends it had received for the month we reviewed (totaling \$1,026). ACS officials indicated that they have instructed contractors to follow proper procedures regarding Independent Living payments, and that adherence to these procedures will be tested during upcoming audits.

During our review of selected contractor records, we found that the endorsement had been altered on a canceled check for \$2,858 made out to a foster care provider for the initial clothing allowance. The check had been endorsed with two signatures, but the original second signature had been erased and rewritten. Such an alteration could indicate that the payment was used for unauthorized purposes. We asked the contractor to follow up on this matter with the foster care provider to ensure that the payment was used for authorized purposes. ACS officials advised us that they too have instructed the contractor to investigate this and report back to them. They have also alerted their auditor responsible for this facility of this situation. Also, in response to our draft report, ACS requested a copy of the altered check which we have provided. (Note: We had first provided ACS with a copy of the check in October 1999.)

In response to our draft report, ACS noted that when it was created in January 1996, it had to assume responsibility for the Human Resources Administration's contracts for uncompleted audits of foster care providers from 1989 through 1992. ACS indicated that it decided to expand the scope of audits of subsequent years. It has contracted with Certified Public Accounting (CPA) firms to audit fiscal years 1993 through 1995, and expects the results of these audits by November 2000. The response also

states that ACS plans to award contracts later this year for fiscal years 1996 through 1999, and that the agency now has a policy of auditing foster care agencies every year in which they receive funds from ACS.

2. Identification Numbers

According to OCFS procedures, all children in foster care are to be assigned a unique identification number, and payments are not to be made for care provided to children without such a number. To determine whether any payments were made for care provided to children without identification numbers, we reviewed selected payment documents maintained by the contractors. At one contractor, we reviewed payment documents involving 84 foster children and found that 19 of the children did not have identification numbers (the payments made for these 19 children totaled \$7,502). At another contractor, we reviewed payment documents involving 22 foster children and found that 17 of the children did not have identification numbers (the payments made for these 17 children totaled \$2,300). When children are not assigned identification numbers, ACS is less likely to detect duplicate claims. While we did not identify any such duplicate claims, it is possible that some of the overpayments identified by our audit involve duplicate claims.

We gave ACS officials a list of the 36 children lacking identification numbers and asked the officials to review the payments made for these children to ensure they were appropriate. ACS officials later advised us that although the contractors' records did not list identification numbers for the 36 children, they later confirmed that 34 of the 36 did have identification numbers. ACS also responded that the agency has significantly reduced this problem and will continue to seek to eliminate its occurrence. It indicated that the number of children without identification numbers represents about 2 percent of the population. In addition the agency anticipates that the problem will be corrected by the implementation of a new computer system which requires an identification number before making a payment.

Recommendations

1. *Improve the internal controls over ACS' payments to foster care contractors, and ensure that foster care contractors have adequate internal controls over their payments to foster care providers. For example:*
 - ! *Perform an annual risk assessment to identify the contractors that should be audited each year. Conduct such audits of records maintained by foster care contractors to verify that the requests for payments submitted by the contractors are supported.*
 - ! *Provide guidance regarding adequate internal controls to ACS staff and key contractor staff.*
 - ! *Verify that the monthly stipends in the Independent Living Program are paid to foster children as required.*

- ! *Do not pay claims for care provided to foster children without identification numbers.*
 - ! *Require contractors to obtain and retain receipts for new clothing allowances.*
 - ! *Maintain contractor claim information and periodically use this information to verify the accuracy of the payments made to the contractors.*
2. *Audit the three contractors that received potential overpayments during our audit period, and recover any overpayments made.*
 3. *Investigate the altered check endorsement identified by our audit and take any appropriate corrective action.*
 4. *Review the payments made to foster care contractors for the 36 children without identification numbers to ensure the payments were appropriate.*

Draft copies of the matters presented in this report were provided to ACS officials for their review and comment. Their comments have been considered in preparing this final report and are included as Appendix A. ACS officials generally agreed with our recommendations and indicated that corrective actions have been taken.

Within 90 days after final release of this report, we request the Commissioner of the Administration for Children's Services to report to the State Comptroller, advising what steps were taken to implement the recommendations contained in this report, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Richard Sturm, Barry Mordowitz, Lesley Padmore, Claude Volcy, Marie Farrington and Dana Newhouse.

We wish to thank the management and staff of the Administration for Children's Services and the four selected contractors for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

William P. Challice
Audit Director

cc: Santo Cuccio
David Fazio
Eileen Reilly



ADMINISTRATION FOR CHILDREN'S SERVICES
150 WILLIAM STREET - 18TH FLOOR
NEW YORK, N.Y. 10038

NICHOLAS SCOPPETTA
Commissioner

January 21, 2000

Mr. William P. Challice
Audit Director
Office of the State Comptroller
Division of Management Audit & State Financial Services
270 Broadway, 19th Floor
New York, New York 10007

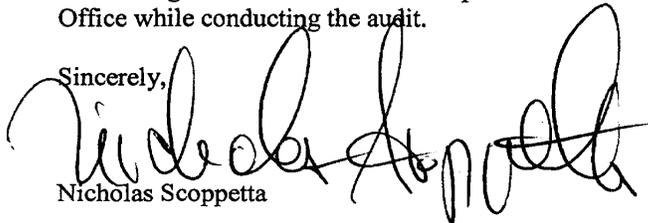
Re: New York State Comptroller's Audit on
Internal Controls Over Payments to
Foster Care Contractors
98-N-9

Dear Mr. Challice:

Thank you for the draft audit report (98-N-9) on Internal Controls Over Payments to Foster Care Contractors. As you know, ACS was created in January 1996 and the transition of many of the financial functions from the Human Resources Administration (HRA) was not complete until Fiscal Year 1999. The audit examined controls for services provided during the period July 1, 1996 through June 30, 1997 and we have made many improvements since. As ACS continues to develop and improve internal controls, the audit recommendations will be incorporated.

We have attached our response to your findings and recommendations. We appreciate the thoroughness of the audit and the professionalism of the staff of the Comptroller's Office while conducting the audit.

Sincerely,



Nicholas Scoppetta

ACS Response: Audit 98-N-9
Internal Controls Over Payments to Foster Care Contractors

State of New York
Office of the State Comptroller
Internal Controls Over Payments
To Foster Care Contractors
Report 98-N-9

Administration for Children's Services Response
January 21, 2000

I. Periodic Audits of Contractor Records

A. Contract Agency Audits

Findings

There are no current audits of the ACS foster care payment systems.

ACS has no assurance that contractors' records support information submitted by contractors.

Recommendation

Perform an annual risk assessment to identify the contractors that should be audited each year. Conduct such audits of records maintained by foster care contractors to verify that the requests for payments submitted by the contractors are supported.

Response

It is ACS policy to audit foster care agencies every year in which they receive funds from ACS.

At the time ACS was created in January 1996, the Human Resources Administration's contracts to audit foster care programs for Fiscal Years 1989 through 1992 were not completed. ACS had to assume responsibility for the completion of these audits. At the same time, ACS began to strategize, analyze and construct a more thorough and fair audit scope for the subsequent years. ACS made the necessary expansions to the scope of the audit including provisions to address the incorporation of the State Rate Setting methodology, Independent Living Programs and other provisions to enhance the audit.

Once these necessary adjustments were made, ACS had to follow the City procurement process to contract with CPA firms approved by the NYC Comptroller's Office to audit Fiscal Years 1993, 1994 and 1995. Final audit results for these years will be available by November 2000. Moreover, ACS plans to contract additional audits later this year for the Fiscal Years 1996 through 1999. These years were not included in the current audit contracts because NYC Comptroller's Directive #5 limits to three years the number of consecutive years a contractor may be audited by the same firm.

Based on the contract language, ACS has six (6) years and 90 days to audit and issue a draft report on foster care contractors from the day they submit their State SOP. Therefore, we are within an acceptable timeframe to audit and recoup any potential overpayments from contractors for Fiscal Year 1997.

ACS Response: Audit 98-N-9
Internal Controls Over Payments to Foster Care Contractors

B. Potential Overpayments**Finding**

According to ACS records, four contractors were paid a total of \$46.9 million for services provided during Fiscal Year 1997. However, according to the contractors' records, the foster care expenses incurred by the contractors for this period totaled only \$45.8 million. As a result, three of the four contractors received potential overpayments of \$1,037,458.

Recommendations

Audit the three contractors that received potential overpayments during our audit period, and recover any overpayments made. Maintain contractor claim information and periodically use this information to verify the accuracy of the payments made to the contractors.

Response

Since the budget methodology utilized by New York State for the foster care programs is based on estimates, there is always the need for reconciliation reviews and payment adjustments.

As referenced in the attached table, the foster care payment business cycle begins in July with ACS paying for care and maintenance based on the last official State administrative rates – the MSAR (most often, the prior year's) and the actual number of care days reported in May.

ACS pays the agencies a single rate for foster parents (the pass through) based on the last agency submission of census information by age and level of difficulty. The State determines the maximum rate reimbursed for each category of age and difficulty level. The census is submitted two to three months following the close of the fiscal year; this forms the basis for a weighted pass through (a single rate) that will be used for payment purposes during the current fiscal year.

Sometime later in the fiscal year, the State finalizes the new MSAR's; at this time, ACS begins to use the new rates for the remainder of the year. (Retroactive adjustments are made during the interim reconciliation process, after the close of the fiscal year). Once the year is over, the agency submits an interim reconciliation with the last official State MSAR, updated care days for July through June, and the actual census for the ending fiscal year. Additionally, contractors are required to submit to the State (with a copy to ACS), the Standard of Payment (SOP) form. This form details program expenditures, for the previous fiscal year. ACS looks at this information along with the agency interim reconciliation and compares reported care days and expenditures. Adjustments (recoupments or payments) are made accordingly.

The final step in the business cycle is the care and maintenance audit. At this step, the final rate is established once the auditor verifies expenditures and excludes disallowed expenditures. If contractors spend more than the final rate, ACS does not reimburse the contractor for the difference, and recovers amounts overpaid. For pass through, ACS reimburses contractors for the difference and recovers amount overpaid.

C. Initial Clothing Receipts

Finding

Three of the four contractors could not provide receipts for clothing allowance payments totaling \$32,325.

Recommendation

Require contractors to obtain and retain receipts for new clothing allowances.

Response

ACS has already taken the following corrective actions:

- 1) ACS is in the process of revising its payment bulletin; the revised version will require contractors to obtain and retain receipts for clothing.
- 2) ACS added to the scope of the foster care audits for Fiscal Years 1993, 1994 and 1995 a requirement that the auditor verify actual expenditures for initial clothing and special payments by reviewing supporting documentation. We expect to recoup any amounts auditors identify as undocumented.
- 3) Additionally, ACS wrote letters to the contractors cited in the report and advised them to take corrective action.

D. Independent Living

Findings

In some instances, independent living stipend payments from contractors to foster children lack documentation.

One contractor was depositing the stipends into a bank account and disbursing the money to the children after they left the program, which is contrary to the requirements of the Independent Living Program.

Recommendation

Verify that the monthly stipends in the Independent Living Program are paid to foster children as required.

Response

As with Foster Care, Independent Living is a rate-based program in which advances are paid based on a per diem rate. Actual expenditures will vary from the advanced amount, as expected, and ACS will recover any unexpended amounts upon audit. Excess expenditures above income are not reimbursed. In addition, any disallowances for lack of supporting documentation and any other improprieties, are identified at the time of the audit for recovery by ACS.

ACS added to the scope of the foster care audits for Fiscal Years 1993, 1994 and 1995 a requirement that the auditor review the different categories of expenditures, such as Independent Living skills training expenses, payment of stipends, and academic support expenses to ensure that these expenses are appropriately billed.

Additionally, ACS wrote letters to the contractors cited in the report and advised them to take corrective action.

E. Altered Endorsement

Finding

The endorsement had been altered on a cancelled check for \$2,858 made out to a foster care provider for the initial clothing allowance.

Recommendation

Investigate the altered check endorsements identified by our audit and take any appropriate corrective action.

Response

We hereby request a copy the “altered check” to better understand the nature of this finding. It may be appropriate for us to refer this matter to the City’s Department of Investigation. ACS has requested a response from the contractor and ACS will continue to follow-up until this matter is resolved.

II. Identification Numbers

Finding

Payment documents totaling \$9,802 reviewed at two contractors did not have identification numbers for 36 of 106 foster children.

Recommendations

Do not pay claims for care provided to foster children without identification numbers.

Review the payments made to foster care contractors for the 36 children without identification numbers to ensure the payments were appropriate.

Response

ACS has significantly reduced this problem and will continue to seek to eliminate its occurrence. At present, this is one of several compliance items that ACS tracks weekly. The number of children without identification numbers fluctuates and represents less than 2% of the entire contract agency foster care population of 32,530. This problem will be corrected upon implementation of CONNECTIONS, as this computer system requires an identification number to make a payment and eliminates any chance of duplicate payments.

In all cases, the contractors had made Special Payments for Miscellaneous Expense items, such as cribs and car seats. Such expenses are outside the normal per diem expense and are billed for separately on a child-by-child basis. It is ACS policy that all bills submitted must include a Child Identification Number (CIN).

ACS reviewed payments made to the two contractors cited for the 36 children auditors identified as lacking child identification numbers (CINs) and also determined whether they do have CINs.

Even though the CINs may not have appeared in the contractors' records at the time of the audit, we found that 34 of the 36 children have CINs. Our investigation for the remaining two children revealed the following:

- One child had an incomplete case number. When the correct case number is found the child will also have a CIN.
- There is one child for whom a CIN has not been found; it appears that the child never came into care even though a payment was made by the contractor for a crib (which, as stated above, would not be reimbursed).

ACS' procedure is to review contractors' claims for reimbursement for the cost of care on a child-by-child basis in a final reconciliation procedure. For any child for whom the contractor fails to provide a CIN, the cost of care is not reimbursed. (If the agency was paid for any such child in the interim reconciliation, the amount paid will be recouped.)

Finding

Significant internal control weaknesses were identified at ACS and the four contractors reviewed.

Recommendation

Improve the internal controls over ACS' payments to foster care contractors, and ensure that foster care contractors have adequate internal controls over their payments to foster care providers. Provide guidance regarding adequate internal controls to ACS staff and key contractor staff.

Response

ACS agrees that internal controls should be monitored and guidance provided. For this reason, all foster care audits are required to report on each agency's internal controls. In addition, ACS staff reviews the internal control reports and findings from an agency's annual financial statements and Federal Circular A-133 audits.

Furthermore, ACS is developing a fiscal evaluation process for the purpose of monitoring foster care contractor performance. The evaluation will contain many internal control indicators and include the areas of monthly billing for foster care, child specific reconciliations and miscellaneous billing.

Comment

ACS would not provide a representation letter in connection with the audit.

Response

Please be advised that it is New York City's policy not to respond to requests for representation letters.

New York City Administration for Children's Services
 Division of Audit, Budget and Claiming
FOSTER CARE PAYMENTS BUSINESS CYCLE

ATTACHMENT

Process	Time Period	Rates		Caredays	Comments
		Admin./MSAR	Pass Through		
Fiscal Year Payments	July	Last Year's State Rate	Last Census Calculation (submitted for prior year)	Two Month's prior Caredays	
	Mid Year	Newly Published State Current Year Rate Paid Prospectively			
	June				
Interim Reconciliation	Post June	Use Current Year City Approved Rate Retroactive to July	Recalculate Based on Actual Reported Days for Fiscal Year By Level of Difficulty	Caredays Adjusted to be July through June Reported Actuals Compared to the State Standard of Payment for that Fiscal Year	Recoupments or Payments are made accordingly
Audits	Within 6 year 90 Day Time Period	Use Last Official State Rate for the Fiscal Year or City Approved Rate if we are not paying MSAR		Compared to the State Standard of Payment for that Fiscal Year	Examines Allowable Expenditures under State and City Guidelines Sets final rate after verifying expenditures and excluding from the calculation disallowed expenditures