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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 25, 2001

Mr. Nicholas Scoppetta
Commissioner
NYC Administration For Children's Services
150 William Street
New York, NY 10038

Re: Report 2001-F-5

Dear Mr. Scoppetta:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article II, Section 8 of the State Finance Law, and Article III of the General Municipal Law, we have reviewed the actions taken by officials of the New York City Administration for Children's Services as of May 8, 2001, to implement the recommendations contained in our report: *Internal Controls Over Payments to Foster Care Contractors (Report 98-N-9)*. Our report, which was issued February 15, 2000, examined the controls established by the Administration For Children's Services over payments to foster care contractors.

Background

The New York City Administration For Children's Services (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), which are reimbursed for the care provided to the children.

ACS is responsible for the health and safety of the children in foster care and for reimbursing foster care contractors. ACS' activities are overseen by the New York State Office of Children and Family Services (OCFS), which reimburses ACS for a portion of the payments made to over 60 foster care contractors. Generally, New York State is responsible for 25 percent of all Foster Care program costs, New York City is responsible for 25 percent, and the Federal government is responsible for 50 percent. The care of foster children is managed by caseworkers, employed either by the ACS or employed by contractors overseen by ACS. These contractors are also responsible for overseeing 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.

Summary Conclusions

Our prior audit found 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 they 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 were paid more than was indicated in their expense records. These potential overpayments totaled \$1,037,458.

Our follow-up review, found that ACS has contracted with CPA firms to audit each contractor annually; however, to date, these audits have been completed only for the fiscal year ended [June 30, 1995](#). There [were no audits](#) conducted regarding the potential overpayments.

Summary of Status of Prior Recommendations

Of the four prior audit recommendations, ACS officials have implemented two recommendations, have partially implemented one recommendation, and have not implemented one recommendation.

Follow-up Observations

Recommendation 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 annual risk assessments 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 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.*

Status – Partially Implemented

Agency Action:

- ?? ACS believes that the recommendation to perform annual risk assessments to identify the contractors that should be audited each year is no longer applicable because it has contracted to have CPA firms perform annual audits of all foster care contractors. However, these audits are running about six years behind the close of the fiscal year; fiscal 1995 audits were in process as of March 2001.
- ?? There was no documentation that guidance regarding adequate internal controls was provided to ACS staff and key contractor staff. However ACS stated that it is in the process of updating its procedures, which will be distributed to ACS staff and contractors.
- ?? ACS officials stated that the CPA audits would verify that the monthly stipends in the Independent Living Program were paid directly to foster children. The four CPA reports that we reviewed indicated that limited compliance testing was performed. However, each CPA report stated that "...providing an opinion on compliance ...was not an objective of the audit, and accordingly... did not express an opinion." ACS officials advised us that future contracts with CPA firms would mandate compliance testing of the Independent Living Program.
- ?? ACS is in the process of implementing an automated claim reconciliation process. This process will identify any claims paid to foster children with missing CIN numbers.
- ?? The procedures for documentation of contractors' expenses for new clothing allowances are being reviewed, because of the difficulties experienced by contractors in complying with this requirement. ACS is considering alternate means of monitoring these expenses.
- ?? The automated procedure "Foster Care Quarterly Reconciliation – Child Specific" is being implemented for all contractors. This reconciliation is designed to alert both ACS and the contract agencies to possible variances between the child specific contractor claims and the actual payment information. The reconciliation specifically compares critical child and payment information, including Child Identification Numbers (CIN).

Recommendation 2

Audit the three contractors that received potential overpayments during our audit period, and recover any overpayments made.

Status – Not Implemented

Agency Action – ACS has not yet conducted audits of the three contractors cited in our audit, however ACS received written [responses](#) from the contractors stating that they are implementing procedures to strengthen controls over payments.

Recommendation 3

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

Status – Implemented

Agency Action – ACS referred this matter to the New York City Department of Investigation (DOI). The DOI [report](#), issued January 5, 2001 to ACS, concluded that this was not a fraudulent transaction.

Recommendation 4

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

Status – Implemented

Agency Action – ACS' [response](#) to our prior audit indicated that it had reviewed the payments made to the foster care contractors for the 36 children, and was satisfied that the payments were appropriate. ACS stated that 34 of the 36 children listed as missing CINs, had CINs even though the numbers did not appear on the contractors' records. ACS further indicated that one of the two remaining children had an incomplete CIN number (ACS found the correct number), and that the remaining child without a CIN never came into care, but the Agency made an appropriate payment for a crib.

Major contributors to this report were Richard Sturm, Barry Mordowitz and Emma Wohlberg.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of the Administration for Children's Services for the courtesies and cooperation extended to us during this review.

Very truly yours,

William P. Challice
Audit Director

cc: Charles Conaway
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