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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

October 25, 2002

Mr. William C. Bell
Commissioner
New York City Administration for
Children's Services
150 William Street
New York, NY 10038

Re: Report 2002-F-20

Dear Mr. Bell:

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 have reviewed the actions taken by officials of the Administration for Children's Services as of September 6, 2002, to implement the recommendations contained in our report: *New York City Administration for Children's Services Internal Controls Over Payments to Preventive Services Providers (Report 99-N-10)*. The report, issued May 30, 2001, examined the questions of whether the Administration for Children's Services (ACS) maintained adequate internal controls over payments made to preventive services providers, and whether it monitored those services to verify that they were being delivered in accordance with the contracts.

Background

ACS was created by Executive Order of the Mayor on January 11, 1996. Its mission is to protect and advance the interests of New York City's children. ACS comprises four child service program components: Child Welfare, the Office of Child Support Enforcement, Head Start, and the Agency for Child Development (ACD). ACS funds preventive services that use professional casework counseling to prevent the removal of children from their families to foster care. Some of these services are provided directly; others are provided by independent contractors. For fiscal year 2002, ACS handled a total of 23,099 cases.

Preventive services payments are based on contractual relationships between ACS and its providers. ACS' budget for fiscal year 2002 indicated there were 200 contracts, valued at \$119 million, through which preventive services were provided. The contracts allow providers to receive an initial advance payment for two months, based on their budgets, and subsequent payments that are based on monthly claimed expenditures. At the end of each year, a closeout procedure is

supposed to be performed to adjust for differences between payments made to contractors and actual contract expenses incurred. This difference needs to be substantiated by certified financial statements with supplemental schedules.

Summary Conclusions

Our prior audit identified significant weaknesses in certain components of ACS' internal control system for processing contractor payments. Independent audits needed to perform closeouts were not being done in a timely manner. Year-end reconciliations were not being performed properly, and reimbursements of contractors' indirect expenses were being made without an approved cost-allocation plan. We also identified certain deficiencies in ACS' efforts to monitor contractors' delivery of services specified in the contract. Many programs with poor utilization rates were renewed.

Based on our follow-up review, we conclude that ACS has acted to implement the recommendations contained in our audit report. A new tracking system for Preventive Program closeouts and year-end reconciliations was implemented and upgraded for fiscal year 2002. The new EQUIP (Preventive Services Evaluation and Quality Improvement Protocol) system monitors contractors' compliance with the contract service delivery and fiscal requirements.

Summary of Status of Prior Recommendations

In our follow-up review, we found that ACS officials have implemented all eight recommendations contained in our prior audit report.

Follow-up Observations

Recommendation 1

Implement ACS' December 6, 2000 Policy Statement (issued after completion of our audit) to evaluate the renewal status of contracts and their associated programs, taking into consideration instances of poor program performance and identified internal control weaknesses.

Status – Implemented

Agency Action – In calendar year 2001, ACS implemented a policy to evaluate program performance using its EQUIP system. The EQUIP report is compiled by various ACS units, and is used to evaluate contractors' compliance with ACS' requirements for reporting performance statistics, meeting quality standards, and monitoring fiscal accountability. These evaluations are used to determine the renewal status of contracts for various preventive services.

Recommendation 2

Develop a system for generating reliable management reports that detail the number of contracts, the number of budgets, the contract numbers, the amounts of the contracts, and the amounts of the budgets to improve oversight.

Status – Implemented

Agency Action – ACS’ Fiscal Operations implemented the “FY Preventive Services Program Closeout Summary Sheet,” which it uses to track the details and closeout status of preventive services contracts. The report tracks the number of contracts (there may be more than one contract for a provider), the amount of the contracts, budget modifications and approvals, and any variances between the amounts reported as received by the contractor and ACS’ records of advances, payments, and adjustments.

Recommendation 3

Assign responsibility for performing year-end closeouts for fiscal years 1997, 1998, and 1999; obtain needed certified financial statements and supplemental schedules; and process any needed adjustments in payments to or from the contractors.

Status – Implemented

Agency Action – Performing the year-end closeouts for fiscal years 1997 and 1998 was the responsibility of the New York City Human Resources Administration (HRA). ACS, which was formerly a unit of HRA, took over responsibility for the preventive services programs at the end of fiscal year 1999. ACS performed the pre-closeouts for fiscal year 1999, and contracted with a certified public accounting firm for financial statements and accompanying supplemental schedules. Since then, ACS’ Audit Review and Analysis unit issued annual communications to its vendors’ program and fiscal directors regarding year-end closeout requirements. In addition to the requirement of the certified financial statements, ACS required that supplemental schedules be submitted with the year-end closeout statements. Adjustment in payments either to or from contractors are made and tracked on ACS’ Preventive Services Program Closeout Summary Sheet.

Recommendation 4

When year-end reconciliations are performed, investigate and resolve any differences between the amounts reported, as received by the contractors on the cash remittance computation form and ACS’ records of payments made.

Status – Implemented.

Agency Action – As discussed under Recommendation 2, ACS uses the Preventive Services Program Closeout Summary Sheet to track the amounts reported as received by the contractors, as well as ACS’ records of payments made. We reviewed the fiscal year 2002 Summary Sheet that detailed the resolution of any differences.

Recommendation 5

Clarify the contract as to when cost allocation plans are required. Obtain and approve cost allocation plans from the appropriate contractors. Verify that only allowable costs are approved.

Status – Implemented

Agency Action – ACS' 2001 contract gives ACS the right to require the contractor to "fairly and accurately allocate costs which are attributable to the operation of two or more programs." If cost allocation is required, the contractor shall, within 30 days, develop and deliver an allocation plan for ACS' approval. In addition, when more than one preventive services program is administered by the same contractor, ACS' FY 2003 - Budget Guidelines requires allocation of administrative overhead.

Recommendation 6

Verify that corrective action plans are being implemented on a timely basis for all contractors that did not achieve a 90 percent utilization rate for three consecutive months. Require corrective action plans to state how the contractor will achieve full utilization promptly and increase the service levels within a specified time.

Status – Implemented

Agency Action – ACS' "Preventive Services Quality Assurance Standards & Indicators and FRP Addendum" establishes the administrative standards for the utilization rate. If the utilization rate for any of the 86 contractors falls below 90 percent of service capacity for 3 consecutive months, the contractor must develop and submit to ACS a Performance Improvement Plan, stating how it will achieve full utilization within 2 months. The Plan also requires the contractor to submit prescribed status reports to ACS until the utilization rate has reached 100 percent for three consecutive months.

ACS provided the "Utilization Tracking Report - FY 2002," showing utilization percentages for underachieving contractors. We reviewed ACS and contractor documentation, and confirmed that ACS had received corrective action plans from the contractors, indicating the steps being taken to increase utilization and the specified time limits for completion.

Recommendation 7

Include a model corrective action plan in the formal policies and procedures manual that will guide ACS in reducing contractors' funding in proportion to a reduced level of service, taking into consideration the fixed costs as allowed by the contract.

Status – Implemented

Agency Action – ACS' "Preventive Services Quality Assurance Standards & Indicators" establishes the standards for the utilization rate, and the resulting procedures and forms that are to be used if the contractor does not meet the standards. The procedures include a model

“Corrective Action Plan,” which the contractor must develop and submit, stating how it will achieve full compliance with contract requirements.

Recommendation 8

Prepare Contractor’s Overall Performance Evaluations on a timely basis and indicate who prepared them, whether they are approved, and whether they have been provided to management for consideration.

Status – Implemented

Agency Action – Beginning in calendar year 2001, ACS’ Office of Management Development and Research replaced the Contractor Overall Performance Evaluation System (COPES) with EQUIP. EQUIP compiles quantitative and qualitative measures of a contractor’s performance. The results of the preliminary evaluation of a contractor’s preventive services program are reviewed by ACS’ Office of Contract Management and Program Planning. The evaluation is then sent to the contractor for its review. For calendar 2001, evaluations were sent out in early August of 2002.

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

We thank the management and staff of the Administration for Children’s Services for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

William P. Challice
Audit Director