

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF MANAGEMENT AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Susan E. Wagner Day Care Center and Its Use of City Funds under Its Contract with the Administration for Children's Services

MD03-175A

June 21, 2004



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the Susan E. Wagner Day Care Center (Center) to determine whether the Center appropriately managed the City revenues it received and expended under its Administration for Children's Services (ACS) contract, maintained safe and sanitary premises for the children under its care, and conducted appropriate background investigations of its employees.

The results of our audit, which are presented in this report, have been discussed with Center and ACS officials, and their comments have been considered in the preparation of this report.

Audits such as this provide a means of ensuring that City resources are used effectively, efficiently, and in the best interest of the public.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in cursive script that reads "William C. Thompson, Jr.".

William C. Thompson, Jr.
WCT/fh

Report: MD03-175A
Filed: June 21, 2004

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City of New York
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Bureau of Management Audit

**Audit Report on the Susan E. Wagner Day Care Center
And Its Use of City Funds under Its Contract with the
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AUDIT REPORT IN BRIEF

This audit determined whether the Susan E. Wagner Day Care Center (Center), appropriately managed the City revenues it received and expended under its Administration for Children's Services (ACS) contract, maintained safe and sanitary premises for the children under its care, and conducted appropriate background investigations of its employees.

Audit Findings and Conclusions

Our review of Center operations revealed that the classrooms, play areas, storage, and kitchen areas were generally safe and sanitary. In addition, the files for Center employees contained most of the required documentation, such as evidence of an annual medical exam, reviews of criminal background investigations, and training in recognizing abuse and maltreatment of children.

However, our examination found that the Center did not appropriately manage the City revenues received or expended. Specifically:

- There was a lack of oversight by the Board of Directors.
- There was a lack of control over personnel expenditures.
- There were weaknesses in Center internal controls over other than personal services expenditures.
- There was a lack of controls over revenues received from the City.

Based on our findings, we make 27 recommendations, including the following:

- The Board members should vote on salary increases for its employees. The discussion pertaining to salary increases should be documented in the Board minutes.
- The Board of Directors should be informed about all Center activities and about investigations of Center activities by government agencies. All Board discussions pertaining to Center activities and investigations should be documented in the Board minutes.
- The Board should ensure that it repays ACS the disallowed portion of the Executive Director's salary.
- The Board should ensure that the Executive Director, as well as other employees, documents the hours worked on each program to properly allocate the salaries to the individual programs.
- The Center should ensure that employees are paid only for hours worked.
- ACS officials should review the salaries of the employees noted in this report and disallow any portion of their salaries that they feel is not attributable to the Center.
- Center officials should ensure that checks are recorded in the general ledger at the time that they are issued.
- Center officials should ensure that they review their bank statements and place a stop order on checks that are outstanding for more than six months.
- Center officials should maintain a separate ACS account to provide a clear audit trail for the receipt of day care funds and parent funds.
- Center officials should ensure that funds for other than Center programs are transferred in their entirety into the appropriate program account and transferred on a timely basis.

ACS Response

The matters covered in this report were discussed with Center and ACS officials during and at the conclusion of this audit. A preliminary draft report was sent to Center and ACS officials and discussed at an exit conference held on May 10, 2004. On May 13, 2004, we submitted a draft report to Center and ACS officials with a request for comments. On June 3, 2004, we received a written response from ACS officials, who responded also on behalf of the Center. ACS officials generally agreed with our recommendations and stated that they have taken steps to implement them.

The full text of the ACS response is included as an addendum to this report.

INTRODUCTION

Background

The Susan E. Wagner Day Care Center (Center), founded in 1962, is a not-for-profit organization sponsored by the Northeast Bronx Day Care Center, Inc., (Board). The Center, at 1140 East 229th Street in the Bronx, is open Monday through Friday from 8:00 a.m. to 6:00 p.m.

During Fiscal Year 2002, the Center was under contract with the City's Administration for Children's Services (ACS) to provide day care services for approximately 115 pre-school children (2 ½ to 6 years of age).¹ The Center received City funds totaling \$635,277 under this contract.

Tuition for all children attending the Center is either fully or partially paid by ACS. For children whose tuition is partially paid by ACS, the balance of their tuition is paid by their parents.

In addition to the Center, the Board sponsors other programs such as Head Start; Pre-School; Early Childhood Intervention; Universal Pre-K; the Susan E. Wagner Day School; and the Day School at Riverdale. The Board maintains a separate bank account for each of their programs. The Board's primary bank account is the ACS account, where all funds, including parent fees are deposited. The Board has a contract with an independent fiscal consultant, who is responsible for the review and oversight of the Board's financial operations.

Objectives

The objectives of this audit were to determine whether the Center:

- Appropriately managed City revenues received and expanded.
- Maintained safe and sanitary premises for the children under its care.
- Conducted appropriate background investigations of its employees.

Scope and Methodology

The period covered by our audit was Fiscal Year 2002. To obtain an understanding of the day care services provided by the Center, we reviewed the day care contract between the Center and ACS as well as applicable State and City regulations. We also reviewed the certified

¹ Day care services are defined by New York health code regulations for family day care home operators as care for less than 24 hours a day provided regularly to a child away from his or her residence by someone other than a parent or guardian. The care can be provided by an association, corporation, or institution, or can be provided in a personal residence (i.e., family day care home).

Fiscal Year 2002 financial statements, the Center's collective bargaining agreements, and the ACS and Department of Investigation (DOI) reports regarding the Center.

To obtain an overview of the Center's internal control structure, we interviewed officials responsible for overseeing the operations of the Center, including the Executive Director, fiscal consultant, the internal auditor, and the bookkeeper.

We conducted inspections on August 5, 2003, and on September 11, 2003, of the Center's classrooms, play areas, and food storage and preparation areas to determine whether they were safe and sanitary.

We examined the Fiscal Year 2002 personnel files for all Center employees to determine whether the appropriate background investigations were conducted. We looked for evidence of an annual health examination, a criminal-history record check by the DOI, and an inquiry to the Statewide Central Register of Child Abuse and Maltreatment (SCR) for any history of child abuse or maltreatment. We also determined whether Center employees had received the mandatory training in identifying child abuse and maltreatment.

We reviewed the Board's bylaws and the minutes of the 1998-2003 Board meetings to determine the degree of Board responsibility and the extent of Board member involvement with the Center operations.

To determine whether Center employees were paid correctly, we randomly selected the month of August 2001 to review the time records for the 24 employees who worked during that month. The results of this sample while not projectable provided a reasonable basis for us to determine whether the Center's employees were paid correctly. We checked whether the employees indicated the hours they worked daily and whether all time records were approved. In addition, we determined whether the employees worked the minimum number of hours required by the collective bargaining agreements. Finally, we recalculated the hours recorded on the time records to determine their accuracy and compared the hours to those reported on the Center's Payroll Register. To ascertain whether employees who worked on more than one of the Board's programs allocated their time appropriately, we reviewed the Board's employee time allocation methodology.

We determined whether the other than personal service (OTPS) expenditures paid for with ACS funds were necessary, authorized and accounted for. To do so, we reviewed the canceled checks and corresponding invoices for all 205 expenditures, totaling \$313,682, recorded in the Center's cash disbursements journal for Fiscal Year 2002. In addition, we checked to see whether all disbursements were accounted for in the Center's Fiscal Year 2002 general ledger.

We reviewed the Center's checkbook to determine whether the Center maintained presigned checks. We reviewed the Center's check register to determine whether the Center recorded voided checks. We also reviewed the Center's Fiscal Year 2002 bank reconciliation, general ledger, and bank statements to determine whether a "stop payment" was placed on

checks that remained outstanding for more than six months, as required by Comptroller's Directive #11.

To determine whether all funds received by the Center from ACS were properly deposited, we reviewed the Fiscal Year 2002 bank statements and deposit slips for the bank account relating to City funds. We determined whether all funds reflected on the bank statements were properly recorded in the Center's Fiscal Year 2002 cash receipts journals. We also determined whether the Center maintained a separate bank account for ACS funds, as required.

Although parent fees are not considered City funds, ACS requires the Center to report all parent fees collected. Therefore, we reviewed the attendance records, the deposit slips, and the bank statements for Fiscal Year 2002 to determine whether the Center reported to ACS all the parent fees collected. We also determined whether the parent fees collected were deposited in the bank account containing ACS funds, as required, and were recorded in the Center's Fiscal Year 2002 cash receipts journal.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, § 93, of the New York City Charter.

ACS Response

The matters covered in this report were discussed with Center and ACS officials during and at the conclusion of this audit. A preliminary draft report was sent to Center and ACS officials and discussed at an exit conference held on May 10, 2004. On May 13, 2004, we submitted a draft report to Center and ACS officials with a request for comments. On June 3, 2004, we received a written response from ACS officials, who responded also on behalf of the Center. ACS officials generally agreed with our recommendations and stated that they have taken steps to implement them.

The full text of the ACS response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

Our review of the Center's operations revealed the following:

- The Center's classrooms, play areas, storage, and kitchen areas were generally safe and sanitary.
- The files for Center employees contained most of the required documentation, such as evidence of an annual medical exam; review of criminal background investigations; and training in recognizing abuse and maltreatment of children.

However, our examination found that the Center did not appropriately manage the City revenues it received or expended. Specifically:

- There was a lack of oversight by the Board of Directors.
- There was a lack of control over personnel expenditures.
- There were weaknesses in Center internal controls over OTPS expenditures.
- There was a lack of controls over revenues received from the City.

Each of these issues is discussed in greater detail in the following sections of the report.

Lack of Oversight by the Board of Directors

The Board's bylaws state that the Board of Directors are to manage and control the activities and properties of the Board. Therefore, the Board needs to be fully informed about the activities of the Center. In addition, according to the ACS document, Sponsoring Board Responsibilities List, provided to us by ACS, "Minutes should be taken every time the Board meets. Minutes reflect and serve as a record of the work of the Board." Therefore, The Board's discussions of Center activities should be fully documented in the Board of Director meeting minutes.

We reviewed the minutes of the Board of Directors meetings from January 7, 1998, through June 17, 2003, to determine the nature of Board issues and any patterns of Board oversight over time. A number of issues that required the Board's oversight were either not discussed, or they were discussed in a cursory manner and not resolved, as discussed below:

Salary Increases for Executive Director Not Discussed or Approved by the Board

The Board of Directors did not discuss or approve the salary increases for the Executive Director.

The Executive Director's salary² increased from \$124,673 in 1998 to \$164,470 in 1999, an increase of approximately 32 percent within one year. She received an additional increase in 2000, bringing her salary up to \$167,879, and by December 2002, her salary was up to \$174,327. Although the Board's President stated that she was aware of the initial increase to the Executive Director's salary, we saw no discussion in the 1998–2003 Board minutes regarding any approval or justification of the Executive Director's salary.

It is in the Board's best interests to be fully involved and informed about the financial operations of the Center, as well as all the activities of the Center's Executive Director. As stated in ACS's Sponsoring Board Responsibilities List, the Board's participation in all Center activities should be fully documented in the Board minutes.

Inadequate Board Discussion of ACS Report

On October 29, 2002, the DOI issued a memorandum on its investigation that found the salary for the Executive Director increased from \$124,673 in 1998 to \$167,879 in 2000 without proper approval from the Board of Directors. In addition, the DOI memorandum stated that the Executive Director did not allocate her salary costs in a reasonable manner to the programs she oversaw. According to the memorandum, the amount of the Executive Director's salary paid for by ACS was not commensurate with the services she provided to the Center.

On April 24, 2003, ACS issued a report dealing with the concerns raised by the DOI memorandum and required the Board to reimburse ACS \$59,267 for disallowed portions of the Executive Director's salary. On July 1, 2003, the Board President sent ACS a letter acknowledging the report's findings and agreeing that as of September 2003, the Board would begin to reimburse ACS in the amount of \$2,000 a month for the next 30 months. However, we noted only a discussion in the Board of Director meeting minutes of the need for an allocation plan for the Executive Director's salary, as recommended in the ACS report. We saw no documentation that showed the ACS report was discussed in depth by any of the Board members.

In addition, there was no oversight by the Board members or ACS to ensure that the disallowed salary was repaid as agreed. On March 31, 2004, we contacted ACS to determine how much of the disallowed salary was repaid. According to the repayment plan, ACS should have received \$14,000 by March 31, 2004. However, it had received just one \$3,000 payment on December 2, 2003. After we contacted ACS, it requested and received an additional \$10,000 payment from the Center.

During the exit conference, ACS officials informed us they that had received an additional \$3,000, bringing the payments up-to-date and leaving a remaining balance of \$43,267.

Board Members Presigned Checks

We found 24 consecutive checks that were presigned by the Vice President of the Board of Directors.

² The ACS-funded portion of the Executive Director's salary is \$50,000.

According to the Center's Executive Director, there are three individuals who are authorized to sign checks, and all checks require at least two signatures before they can be issued.

Our review of correspondence between ACS and Center officials revealed that on March 5, 2003, six months prior to our observation, ACS and Center officials met to discuss the results of an ACS audit. ACS said they informed Center officials that they had found in the checkbook three presigned checks with a Board member's signature. ACS officials told us that during that meeting, the Center's Executive Director acknowledged that this was not a good practice and that it would be avoided in the future. Although the Executive Director reportedly agreed to eliminate this practice, it was still on going six months later, when we found 24 consecutive checks that were presigned.

The Executive Director stated that the checks were presigned since Board members are not always readily available as co-signers. However, according to the ACS document Sponsoring Board Responsibilities List, "In selecting people to serve on the Board, it is important to determine that they have the time and interest to participate in overseeing the operation of the day care program." The Board should ensure that its members are more available to respond to Center needs and take a more active role in monitoring and safeguarding Center assets.

The purpose of requiring two signatures on a check is to ensure that the Board is aware of the expenses incurred by the Center and agrees that they are legitimate. By presigning checks, the Board risks that funds might be spent on illegitimate expenditures.

No Board Discussion of FDIC Coverage For Center Cash Balances

Throughout Fiscal Year 2002, the Center's cash in the bank exceeded the \$100,000 FDIC insurance coverage available for these funds by the federal government. On a monthly average, the Center maintained \$335,188 in its bank account, thereby leaving \$235,188 (the amount in excess of the FDIC coverage) not insured by the FDIC. Should the bank fail, the Center will be at risk of losing \$235,188.

This issue was noted by the Board's Certified Public Accountant in the audit of the Board's Fiscal Year 2002 financial statements. In addition, the Center's Executive Director brought up this issue during a Board of Directors meeting on March 4, 2003. However, there was no discussion to resolve the issue noted in the minutes of that meeting or in the minutes of subsequent Board meetings.

Recommendations

1. The Board members should vote on salary increases for its employees. The discussion pertaining to salary increases should be documented in the Board minutes.

ACS Response: “The program states that although the board minutes were not complete, there is a salary verification for the Executive Director, dated August 28, 2000, signed by two board members. ACS will review minutes of board meetings for evidence of approval of salary increases.”

Auditor Comment: A salary verification that is signed by two board members does not constitute full Board involvement. The entire Board should consider all such matters as salary increases and should document those discussions in the Board minutes.

2. The Board of Directors should be informed about all Center activities and about investigations of Center activities by government agencies. All Board discussions pertaining to Center activities and investigations should be documented in the Board minutes.

ACS Response: “The Board claims that inadequate board meeting minutes created the impression of lack of awareness/approval. The program further states that it has taken steps to ensure that the minutes accurately reflect Board transactions and it secured the services of the Council of Community Services to provide board development. ACS will review minutes of Board Meetings for evidence of reports and discussion of center activities including investigations.”

3. The Board should ensure that it repays ACS the disallowed portion of the Executive Director’s salary.
4. ACS should ensure that it collects the entire disallowed portion of the Executive Director’s salary.

ACS Response to Recommendations #3 and #4: “The program has repaid to ACS, \$16,000 of the disallowed portion of the Executive Director’s salary, which totaled \$59,267. The Board will ensure that repayment of the remaining portion occurs according to the repayment schedule previously agreed upon. ACS will ensure that it recovers the entire disallowed portion of the Executive Director’s salary.”

5. The Board should prohibit the practice of presigning checks.

ACS Response: “The Board voted to discontinue pre-signing of checks. ACS will monitor implementation of this policy.”

6. The Board of Directors should ensure that the Center’s bank account cash balances not exceed the FDIC limit. Their discussion of this issue should be documented in Board minutes.

ACS Response: “The Board of Directors is in the process of implementing this recommendation. They have resolved to open additional bank accounts to ensure that the amount in each account does not exceed the amount of FDIC limit. ACS will monitor this recommendation for implementation.”

Lack of Controls over Personnel Expenditures

Our review of the Center’s time records for August 2001 found that salaries were not appropriately allocated among Board programs; employees may have been paid for hours not worked; and the Executive Director had only recently started to maintain timesheets. These issues are discussed in further detail below.

Salaries Not Appropriately Allocated Among Board Programs

There is no back-up documentation to justify the salary allocations for employees who work for the Center and also for other Board-sponsored programs. There are five such employees, including the Center’s Executive Director. For Fiscal Year 2002, their total salaries amounted to \$299,278. Of this amount, \$118,624 was allocated to the Center and paid for by ACS funds.

According to the contract with ACS, the Executive Director was required to render services of 38 hours per week to the Center at an annual salary of \$49,997. The other four Center employees were required to work from 20 to 40 hours per week for the ACS program. These five employees also work on other Board-sponsored programs that are not ACS-funded. Although, the Center’s payroll register indicates the percentage of employees’ salary allocated to each program, their time cards do not reflect the number of hours worked on each program. As a result, we were unable to determine whether the employees worked for the Center the number of hours for which they were paid.

There is no documentation of how the percentages of each employee’s total salary, as shown on the Center’s payroll register, were allocated for each program. Moreover, there are no indications on employees’ time cards that note the number of hours worked on each program. In fact, although the Executive Director’s time sheets include a program-time allocation table, it is not filled out. When we asked the Executive Director how the payroll register allocation rates were developed, she did not know.

According to a DOI memorandum filed October 29, 2002, the Executive Director’s salary “was not properly allocated to the programs she oversaw and that some programs, including ACS, bore a disproportionate amount of the costs associated with the operation of the individual programs.” On April 24, 2003, ACS responded to the DOI memorandum by recommending that the Executive Director maintain timesheets and document the hours worked on each program. The minutes of a Board of Directors meeting on March 4, 2003, stated that the Board agreed to implement this recommendation and that a consultant was hired to develop an allocation plan.

We have not received a copy of this plan to review its methodology. As of March 2004, the Executive Director stated the allocation plan is still not ready. As a result, we remain unable to determine whether Center employees work the required hours on Center activities to justify the salary expenditures funded by ACS.

According to the ACS report, because of a lack of an adequate cost-allocation plan, it had disallowed \$59,267 of the Executive Director's salary for the contract period covering 1998 through 2001. Since there is still no allocation plan, ACS should review the salaries of the five employees noted above and disallow any portions of their salaries that it feels are not attributable to the Center.

Employees Received Extra Paychecks for Hours Not Worked

Three employees received extra paychecks totaling \$2,892 for the pay period ending August 10, 2001. There were no additional time cards or supporting documentation to justify the additional paychecks. Center officials were unable to provide an explanation to justify the additional paychecks.

Employees Paid for Hours Not Reflected on Time Cards

During August 2001, employees were paid for hours worked that were not reflected or were not accurately calculated on their time cards. For example,

- Seven of the Center's 24 employees who worked during the time period reviewed signed in at work but did not sign out. These employees were nonetheless paid for a full day. In some cases, the Executive Director, who is responsible for reviewing and signing the time cards, either filled in the missing information on the time card or approved the processing of incomplete time cards.
- Employees were paid for hours not worked. For example, the Center paid a teacher's aide a full day's salary for working on August 9, 2001, even though according to the time cards and the attendance logbook, the employee did not work that day. This same employee was paid for working 80 hours during the pay period ending August 24, 2004; however, upon further review we found that this employee worked only 70 hours and 46 minutes. In addition, an assistant teacher worked 70 hours and 38 minutes; however, according to the payroll register, the employee was paid for working 76 hours.
- One employee was paid \$778 for the pay period ending August 24, 2004, when in fact she had no time cards to support her paycheck for this period.

The Executive Director is responsible for reviewing and approving time cards. By not identifying and correcting discrepancies, she allowed the Center to possibly pay employees for services not rendered.

According to the ACS Fiscal Year 2002 Fiscal Administrative Management Report, ACS gave the Center an adequate rating for its time and attendance control. The above-mentioned findings should have precluded the issuance of an “adequate” rating for the Center’s time and attendance control. By doing so, ACS allowed the Center to continue its practice of maintaining inaccurate timekeeping records, thereby possibly paying its staff for services not rendered.

Center’s Executive Director Did Not Maintain Timesheets

The Center’s Executive Director did not maintain timesheets to support the hours she was paid for working at the Center during our audit scope period.

ACS responded to the DOI memorandum (previously cited) by recommending that the Executive Director maintain timesheets and document the hours worked on each program. Even though the Executive Director was aware of the findings reported in the DOI memorandum dated October 29, 2002, as well as ACS’s response to it dated April 24, 2003, she did not begin to maintain time sheets until August 18, 2003, a month after the start of our audit.

Recommendations

7. The Board should determine how to allocate employee time to its various programs. This plan should be reviewed and approved by its Board of Directors and should be documented in the Board minutes.

ACS Response: “The Board has retained the services of a consulting firm to develop a cost allocation plan for the agency. The Board will review the plan and, once finalized, will formally approve it. ACS has requested a copy of the cost allocation plan, will review it and address any questions or concerns to the Board. ACS will monitor the implementation.”

8. The Board should ensure that the Executive Director, as well as the other employees, documents the hours worked on each program to properly allocate the salaries to the individual programs.

ACS Response: “This policy has been implemented. Employees will have program specific time cards. ACS will monitor this.”

9. The Center should ensure that employees are paid only for hours worked.

ACS Response: “ACS has requested a cost allocation plan and will follow-up to ensure that it is promulgated and implemented.”

10. The Center should ensure that accurate and complete time records are maintained to reflect the hours worked by its employees.

11. The Executive Director should be more diligent in her review of employee time cards.

ACS Response: “On May 5, 2004, the Board voted that employees will not be paid for hours not reflected on their time cards. The director will review and approve all time cards. The program has reported that the Board has instructed the Executive Director to be more diligent in her review of employee time cards. ACS will monitor.”

12. The Board should continue to ensure that the Executive Director maintains time records that reflect her times of arrival and departure from the Center.

ACS officials should:

13. Ensure that the Board submits a salary-allocation plan for each of the employees that work on more than one program

14. Be accurate in their review and rating of the Center’s time and attendance controls.

ACS Response to Recommendations #12, #13 and #14: “As per its contract with ACS, the Board has directed the Executive Director to maintain timesheets documenting her time spent on the ACS program. ACS will review the program’s time and attendance controls.”

15. Review the salaries of the employees noted in this report and disallow any portion of their salaries that they feel is not attributable to the Center.

ACS Response: “ACS will review salaries against the budget and cost allocation plan and disallow any portion of salary not attributable to the ACS program.”

Weaknesses in Internal Controls over OTPS Expenditures

Our audit evaluated the adequacy and effectiveness of Center internal controls and accountability over the expenditures of its City funds. We found that there were numerous weaknesses in the Center’s internal controls over its OTPS expenditures.

The objectives of an internal control system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management authorization and properly recorded.

We found weaknesses in the following areas of the Center’s internal control system:

- Lack of controls over the recording of transactions

- Outstanding checks are not canceled
- Lack of supporting documentation
- Lack of segregation of duties

The Center's fiscal consultant, who is responsible for the review and oversight of the Center's financial operations, was unable to offer an explanation for some of the irregularities, and he attributed other irregularities to "human error," as discussed below.

Lack of Controls over the Recording of Transactions

There is a lack of control over the recording of transactions in the general ledger and in the checkbook. During our review of the 205 ACS disbursements for Fiscal Year 2002, we found the following irregularities concerning the recording of transactions:

Check Dates Differ from Dates in General Journal

For 35 of the 205 ACS disbursements, the dates recorded on the checks were different from the dates recorded in the ACS general journal. For 23 disbursements, the checks were recorded in the general journal one to 15 days before the checks were issued. Since checks should be authorized and approved for payment at the time that they are issued, the checks that were recorded before they were issued were therefore not authorized and approved for payment prior to issuance.

The remaining 12 checks were recorded in the general journal one to 24 days after they were issued. Three of the 12 checks were recorded only after they were cashed and appeared on the bank statement. Proper controls require that checks be posted at the time they are issued.

Checks Issued and Recorded Out of Sequence

We found 16 checks that were issued out of sequence during Fiscal Year 2002. These checks were also recorded in the general ledger out of sequence. For example, check #2222 was issued on August 1, 2001, in the amount of \$2,427. The check that followed, check #2216, was issued on August 8, 2001, in the amount of \$1,816. In another example, check #2221 was issued on August 29, 2001, in the amount of \$215. The next entry recorded in the general ledger was check #2226, also issued on August 29, 2001, in the amount of \$15. For good internal controls over funds, checks should be written and recorded in sequential order.

Checks Not Properly Recorded

Seven checks, totaling \$605,090, were recorded in the general ledger as payments made to the Susan Wagner Day Care Center. Upon further investigation, we discovered that these checks were intended for other programs, specifically, the Susan Wagner Day School, the Susan Wagner Universal Pre-K program, and the Susan E. Wagner preschool program.

Misplaced Check Register Pages

Upon our review of the Center's check register, we found five pages from other program check registers that did not belong in the Center's check register. These five pages actually belonged to other program accounts. Such intermingling of check register pages may cause the Center to record payments in the wrong checkbook register.

Voided Checks Not Recorded

There were 12 checks marked as void that were not recorded in the general ledger as void. Four of these checks were also not listed in the checkbook register as void. Though the remaining eight checks were listed as void in the checkbook, the entries either lacked the check number or the dollar amount of the check, or both. The Center needs to be more responsible in the recording of voided checks.

We discussed the above findings with the fiscal consultant, who is responsible for the review and oversight of the Center's financial operations. He was unable to provide any explanations and attributed the errors to "human error." The fiscal consultant stated that since he posts and reviews all entries made in the general ledger, he is the individual who should have initially identified these irregularities. His inability to provide an explanation indicates that he does not review the recording of transactions effectively.

Recommendations

Center officials should ensure that:

16. Checks are recorded in the general ledger at the time that they are issued.
17. Checks are issued and recorded in sequential order.
18. Checks are correctly recorded in the general ledger to reflect the actual payee.
19. The pages of the Center's check register are maintained separately from the pages of other program check registers.
20. Checks that are void are listed as void in the general ledger and the checkbook register.

ACS Response: "The program has implemented these recommendations via its use of a computerized accounting program that records checks in the general ledger as they are issued. ACS will monitor."

Long Outstanding Checks Not Canceled

The Center did not cancel and place a “stop payment” order to the bank for outstanding checks. As a result, during Fiscal Year 2002, there were 11 checks, totaling \$110,807, that were outstanding from 305 to 1,053 days—almost three years.

According to § 6.3 of Comptroller’s Directive #11, “Checks outstanding more than six months should be canceled and stop payment orders issued.”

The Center’s fiscal consultant, whose responsibilities include preparing and performing bank reconciliations, stated that he never orders a stop payment for outstanding checks.

The fiscal consultant also claimed that all 11 outstanding checks were mailed and were never cashed. However, we found two checks, totaling \$109,073, that were fund transfers between the Center and two of the Board’s other programs and that would therefore not have been mailed. This was an internal transaction that should have been immediately identified and accounted for by the fiscal consultant. When we questioned the fiscal consultant, he agreed that it was not a proper accounting practice to allow checks to remain outstanding for such an excessive period of time. He also replied that he did not know why the two checks to other programs were not deposited.

According to the ACS Fiscal Year 2002 Fiscal Administrative Management Report, ACS gave the Center an adequate rating for its bank reconciliations. The Center’s practice of not investigating and issuing stop payments for checks outstanding for more than six months was not noted. The management of checks outstanding for excessive periods is an important control over the Center’s funds and should have been noted by ACS.

During the exit conference, ACS officials stated that that they relied on the financial report, which was prepared by a CPA, to rate the Center and that they were able to comment only by using that report.

Recommendations

21. Center officials should ensure that they review their bank statements and place a stop order on checks that are outstanding for more than six months.

ACS Response: “The program has implemented these recommendations via its use of a computerized accounting program that records checks in the general ledger as they are issued.”

Auditor Comment: The implementation of a computerized accounting system does not address this recommendation. To ensure that checks are not outstanding for more than six months, Center officials need to review their bank statements and place a stop order on those checks that are outstanding for more than six months.

22. Board officials should investigate why the two checks for fund transfers between Board accounts were not deposited.

ACS Response: “On May 5, 2004, the Board appointed two members to investigate the reason two checks for fund transfers between center accounts were not deposited but canceled after a long period of time. ACS is awaiting the results of the investigation. Once it is received, a determination regarding a course of action will be discussed.”

23. ACS officials should ensure that they obtain all of the information required prior to their review and rating of the Center’s financial practices.

ACS Response: “ACS will continue to strive for accuracy in its review of the program’s financial practices.”

Lack of Supporting Documentation

The Center did not maintain supporting documentation for an American Express expenditure totaling \$1,938. Although we asked the fiscal consultant on numerous occasions to provide us the supporting documentation for the charge to the American Express account, he did not do so. Without the supporting documentation, we were unable to determine whether this expenditure was for legitimate purposes and related to the Center’s operations.

Recommendation

24. Center officials should ensure that they maintain supporting documentation for all expenditures.

ACS Response: “ACS has directed center officials to be more diligent in maintaining documentation to support all expenditures. ACS will monitor.”

Commingling of Funds

The Board commingled parent fees and ACS funds with funds received from other sources for other programs. This practice, which is prohibited by ACS guidelines, prevents the maintenance of a clear audit trail of the Board’s handling of its ACS funds and other program funds.

The Fiscal Provisions section in the contract between the Center and ACS states:

“The Contractor . . . shall establish and maintain a bank account . . . to be used only for the funds received under this Agreement. All funds received under this Agreement, including Contractor-collected fees, shall be deposited in the account. These Funds shall not be commingled with funds received from any other source,

or with funds received under any other agreement between the Contractor and ACS, unless otherwise unless otherwise permitted in advance in writing by ACS.”

All funds received by the Board, including the parent fees, are deposited in the ACS account. The funds are then transferred from the ACS account to the appropriate program accounts. However, the funds are not immediately transferred in their entirety out of the ACS account. According to Center officials, the funds are transferred into other accounts on an “as needed basis.” Our review found problems with the fund transfers in and out of the ACS account. The following are examples.

- A \$139,999 check was deposited from the ACS account into the Susan Wagner Pre-School program account. However, based on a review of the ACS fund balance at the time, \$35,689 of the \$139,999 transferred were, in fact, ACS funds and should have remained in the ACS account. Further, the remaining \$104,310 was supposed to be deposited into the Susan Wagner Universal Pre-K program account and not into the Pre-School program account.
- A \$78,178 check from the ACS account was supposed to be deposited in the Susan Wagner Pre-School program³ account. However, it was deposited in the Susan Wagner Universal Pre-K program account.
- As cited in a prior section, two checks, totaling \$109,073, for fund transfers from the ACS account to other program accounts were never deposited into these accounts. These checks remained outstanding for up to 519 days before they were identified as outstanding checks and were entered correctly on November 30, 2002.
- During July 2001, the Center received \$190,000 for its Pre-School program. Our review of the bank statements for that period revealed that only \$100,000 was transferred into the Pre-School program account. Because the \$190,000 was not transferred in its entirety, we were unable to determine whether the remaining funds were transferred into the appropriate account and were for legitimate expenditures.

The Center’s fiscal consultant stated that although funds are moved around and may be deposited incorrectly, at year-end he reconciles all program accounts to ensure that they have received the correct funds for the year. We were able to account for all ACS funds and parent fees received by the Center for its day care services. We note that our audit scope did not extend to a review of fund use and balances of the Center’s non-ACS accounts.

The Center would be in compliance with the Fiscal Provisions section in its ACS contract and would establish a clear audit trail of its funds if it maintained separate bank accounts for ACS funds and parent fees. The commingling of funds and the transfer of funds back and forth between accounts creates an appearance of impropriety and allows funds intended for one program to be used for others. For example, as cited above, the fiscal consultant transferred \$35,689 of ACS funds into another account because that account needed funds. Although, the

³ This refers to the Special Education program.

ACS funds were eventually put back in the ACS account, it is not a good fiscal practice to make loans between different, unrelated programs.

Recommendations

Center officials should:

25. Maintain a separate ACS account to provide a clear audit trail for the receipt of day care funds and parent fees.

ACS Response: “The program has already established a separate account for each program it administers. This includes an account for ACS funds and parent fees. ACS will monitor.”

26. Ensure that funds for other than Center programs are transferred in their entirety into the appropriate program account and transferred on a timely basis.

ACS Response: “The Board has directed center officials to transfer all program funds in their entirety into the appropriate program account on a timely basis. ACS will monitor.”

Other Matter:

Lack of Segregation of Duties in Handling of Parent Fees

The Center does not segregate the responsibilities of its cash-receipt function for parent fees, which includes collecting, recording, securing, and depositing the fees. Instead, the Center’s bookkeeper performs all of these functions. During Fiscal Year 2002, the Center collected approximately \$70,000 in parent fees. Lack of appropriate segregation of duties in an organization can allow errors and irregularities to occur without being detected.

Comptroller’s Directive #1 on internal controls states, “To minimize the possibility of inefficiency, errors, and fraud, responsibility for a sequence of related operations should be divided among two or more persons.”

The Center’s bookkeeper receives the parent fees, secures the fees, records the receipt in the parent fee logbook, fills out the deposit slips, and makes the bank deposits. The Center employs an adequate number of employees to allow for the segregation of duties for this function. Although we found that the full amount reported to ACS as collected parent fees was deposited, this lack of segregation of duties increases the possibility of inefficiencies, errors, and irregularities.

Recommendation

27. Center officials should implement internal controls to compensate for the lack of segregation of duties.

ACS Response: “ACS will continue to work with the program to improve their internal controls.”



ADMINISTRATION FOR CHILDREN'S SERVICES

150 William Street - 18th Floor
New York, NY 10038

WILLIAM C. BELL
Commissioner

June 3, 2004

Mr. Greg Brooks
Deputy Comptroller
Policy, Audits, Accountancy & Contracts
The City of New York Office of the Comptroller
Executive Offices
1 Centre Street, Room 1100
New York, New York 10007-2341

Re: New York City Comptroller Audit on Susan E. Wagner Day Care Center and
it's use of City Funds Under Its Contract with Administration for Children's Services
Audit Number MD03-175A

Dear Mr. Brooks:

Thank you for sharing with us the Draft Report for the above captioned audit.

Attached is our response to your recommendations and appropriate Audit Implementation Plans (AIPs). ACS looks forward to working with your office to improve the delivery of services to the children of the City of New York.

If you have any questions, please do not hesitate to contact me.

Sincerely,

William C. Bell

Attachments

City of New York Office of the Comptroller
Susan E. Wagner Day Care Center and Its Use of
City Funds under Its Contract with the
Administration for Children's Services
Audit Number MD03-175A

Administration for Children's Services (ACS)
Response to Recommendations
June 03, 2004

The NYC Comptrollers review of the Susan E. Wagner Day Care Center's (Center) operations revealed the following:

- *The Center's classrooms, play areas, storage, and kitchen areas were generally safe and sanitary.*
- *The files for Center employees contained most of the required documentation, such as evidence of an annual medical exam; review of criminal background investigations, and training in recognizing abuse and maltreatment of children.*

Recommendation 1

The program has already implemented this recommendation. The Board votes on salary increases for employees and will continue to do so in the future.' The program states that although the board minutes were not complete, there is a salary verification for the Executive Director, dated August 28, 2000, signed by two board members. ACS will review minutes of board meetings for evidence of approval of salary increases.

Recommendation 2

This recommendation has been implemented. The Board is familiar with all center activities including investigations by government agencies. As with the previous recommendation, the board claims that inadequate board meeting minutes created the impression of lack of awareness/approval. The program further states that it has taken steps to ensure that the minutes accurately reflect Board transactions and it secured the services of the Council of Community Services to provide board development. ACS will review minutes of Board Meetings for evidence of reports and discussion of center activities including investigations.

Recommendations 3 and 4

Implementation of this recommendation has already begun. The program has repaid to ACS, \$16,000 of the disallowed portion of the Executive Director's salary, which totaled \$59,267. The Board will ensure that repayment of the remaining portion occurs according to the repayment schedule previously agreed upon. ACS will ensure that it recovers the entire disallowed portion of the Executive Director's salary.

Recommendation 5

The Board voted to discontinue pre-signing of checks. ACS will monitor implementation of this policy.

Recommendation 6

The Board of Directors is in the process of implementing this recommendation. They have resolved to open additional bank accounts to ensure that the amount in each account does not exceed the amount of FDIC limit. In August 2003, an account was opened at Citibank. Additional accounts will be opened at HSBC and North Fork banks as the need arises. ACS will monitor this recommendation for implementation.

Recommendation 7

The Board has retained the services of a consulting firm to develop a cost allocation plan for the agency. The Board will review the plan and, once finalized, will formally approve it. ACS has requested a copy of the cost allocation plan, will review it and address any questions or concerns to the Board. ACS will monitor implementation.

Recommendation 8

This policy has been implemented. Employees will have program specific time cards. ACS will monitor this.

Recommendation 9

ACS has requested a cost allocation plan and will follow-up to ensure that it is promulgated and implemented.

Recommendations 10, 11 and 12

On May 5, 2004, the Board voted that employees will not be paid for hours not reflected on their time cards. The director will review and approve all time cards. The program has reported that the Board has instructed the Executive Director to be more diligent in her review of employee time cards. ACS will monitor.

Recommendations 13 and 14

The program states that although, according to the IRS, an executive director is exempt from certain time-keeping requirements, as per its contract with ACS, the Board has directed the Executive Director to maintain timesheets documenting her time spent on the ACS program. ACS will review the program's time and attendance controls.

Recommendation 15

ACS will review salaries against the budget and cost allocation plan and disallow any portion of salary not attributable to the ACS program.

Recommendations 16, 17, 18, 19, 20 and 21

The program has implemented these recommendations via its use of a computerized accounting program that records checks in the general ledger as they are issued. ACS will monitor.

Recommendation 22

The program has implemented this recommendation via its use of a computerized accounting program that records checks in the general ledger as they are issued. ACS is awaiting the results of the investigation. Once it is received, a determination regarding a course of action will be discussed.

Recommendation 23

ACS staff will continue to strive for accuracy in its review of the program's financial practices.

Recommendation 24

Although this finding was based upon a single incident over the course of an entire fiscal year, it has, nevertheless, directed center officials to be more diligent in maintaining documentation to support all expenditures. ACS will monitor.

Recommendation 25

The program has already established a separate account for each program it administers. This includes an account solely for ACS funds and parent fees. ACS will monitor.

Recommendation 26

The Board has directed center officials to transfer all program funds in their entirety into the appropriate program account on a timely basis. ACS will monitor.

Recommendation 27

The Board feels that the duties with regard to the collection and deposit of parent fees are adequately segregated, as the bookkeeper does not make the deposits. ACS appreciates the need for improved internal controls and does not believe that simply having another person make the deposit is adequate segregation of duties or evidence of adequate controls. ACS will continue to work with the program to improve their internal controls.

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT REPORT OF SUSAN E. WAGNER DAY CARE CENTER AND ITS
USE OF CITY FUNDS UNDER ITS CONTRACT WITH THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: MD03-175A**

RECOMMENDATION # 1: The Board members should vote on salary increases for employees. The discussion pertaining to salary increases should be documented in the Board minutes.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The program has already implemented this recommendation. The Board votes on salary increases for employees and will continue to do so in the future." The program states that although the board minutes were not complete, there is a salary verification for the Executive Director, dated August 28, 2000, signed by two board members.	Joyce James, Executive Director	04/01/04	Continuing	Board Minutes	
		06/01/04	Continuing	Board Minutes Field Reports	
ACS will review minutes of board meetings for evidence of approval of salary increases.	Rosemary Kennedy, Executive Director Child Care Program Operations, ACS				

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AUDIT NUMBER: MD03-175A**

RECOMMENDATION # 2 The Board of Directors should be informed about all Center activities and about investigations conducted on Center activities by government agencies. All Board discussions pertaining to Center activities and investigations should be documented in Board minutes.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
This recommendation has been implemented. The Board is familiar with all center activities including investigations by government agencies. As with the previous recommendation, the board claims that inadequate board meeting minutes created the impression of lack of awareness/approval. The program further states that it has taken steps to ensure that the minutes accurately reflect Board transactions and it secured the services of the Council of Community Services to provide board development.	Joyce James, Executive Director	04/01/04	Continuing	Board Minutes	
		06/01/04	Continuing	Board Minutes Field Reports	
ACS will review minutes of Board Meetings for evidence of reports and discussion of center activities including investigations.	Rosemary Kennedy, Executive Director, Child Care Program Operations, ACS				

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RECOMMENDATION # 3 The Board should ensure that it repays ACS the disallowed portion of the Executive Director's salary.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
Implementation of this recommendation has already begun. The program has repaid to ACS, \$16,000 of the disallowed portion of the Executive Director's salary, which totaled \$59,267. The Board will ensure that repayment of the remaining portion occurs according to the repayment schedule previously agreed upon.	Joyce James, Executive Director	07/15/03	12/31/05	Cancelled Checks	
	Larry Thomas, Executive Director, Sponsor Management & Compliance, ACS				

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RECOMMENDATION # 4 ACS should ensure that it collects the entire disallowed portion of the Executive Director's salary.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner, ACS Child Care

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS will ensure that it recovers the entire disallowed portion of the Executive Director's Salary.	Larry Thomas, Executive Director, Sponsor Management & Compliance	07/15/03	12/31/05	Checks	

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AUDIT NUMBER: MD03-175A**

RECOMMENDATION # 5 The Board should disallow the practice of pre-signing checks.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The Board voted to discontinue pre-signing of checks. ACS will monitor implementation of this policy.	Joyce James, Executive Director	04/01/04	Continuing	Checkbook	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Checkbook; Field Visit Reports	

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RECOMMENDATION # 6 The Board of Directors should ensure that the Center's bank account cash balances not exceed the FDIC limit.
Their discussion of this issue should be documented in Board minutes.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The Board of Directors is in the process of implementing this recommendation. They have resolved to open additional bank accounts to ensure that the amount in each account does not exceed the amount of FDIC limit. In August 2003, an account was opened at Citibank. Additional accounts will be opened at HSBC and North Fork banks as the need arises.	Joyce James, Executive Director	08/01/03	07/31/04	Bank Statements	
		06/01/04	Continuing	Bank Statements	
ACS will monitor this recommendation that seeks to safeguard public funds.	Larry Thomas, Executive Director, Sponsor Management & Compliance				

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RECOMMENDATION # 7 The Board should determine how to allocate employee time to its various programs. The plan should be reviewed and approved by its Board if Director and should be documented in the Board minutes.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The Board has retained the services of a consulting firm to develop a cost allocation plan for the agency. The Board will review the plan and, once finalized, will formally approve it.	Joyce James, Executive Director	04/01/04	06/30/04	Cost Allocation Plan	
		07/01/04	Continuing	Cost Allocation Plan Payroll Register	
ACS has requested a copy of the cost allocation plan, will review it and address any questions or concerns to the Board. ACS will monitor implementation.	Larry Thomas, Executive Director, Sponsor Mgmt & Compliance				

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RECOMMENDATION # 8 The Board should ensure that the Executive Director, as well as the other employees, document the hours worked on each program in order to properly allocate the salaries to the individual program

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
This policy has been implemented. Employees will have program specific time cards. ACS will monitor.	Joyce James, Executive Director	05/05/04	Continuing	Personnel Policy Timecards	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Personnel Policy Timecards; Field Visit Reports	

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RECOMMENDATION # 9 ACS should ensure that the Board submits a salary allocation plan for each of the employees that work on more than one program.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner, ACS Child Care

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS has requested a cost allocation plan and will follow-up to ensure that it is promulgated and implemented.	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Cost Allocation Plan, Payroll Register, Audit	

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RECOMMENDATION # 10 The Center should ensure that employees are paid only for the hours worked.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
On May 5, 2004, the Board voted that employees will not be paid for hours not reflected on their time cards. ACS will monitor implementation.	Joyce James, Executive Director	05/10/04	Continuing	Time Cards; Payroll Register	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/1/04	Continuing	Time Cards; Payroll Register; Field Visit Reports	

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RECOMMENDATION # 11 The Center should ensure that accurate and complete time records are maintained to reflect the hours worked by its employees.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The director will review and approve all time cards. ACS will monitor implementation.	Joyce James, Executive Director	05/10/04	Continuing	Time Cards	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Time Cards; Field Visit Reports	

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RECOMMENDATION # 12: The Executive Director should be more diligent in her review of employee time cards.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The program has reported that the Board has instructed the Executive Director to be more diligent in her review of employee time cards. ACS will monitor.	Joyce James, Executive Director	5/10/04	Continuing	Time Cards	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Time Cards; Field Visit Reports	

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RECOMMENDATION # 13: The Board should continue to ensure that the Executive Director maintains time records that reflect her times of arrival and departure from the Center.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The program states that although, according to the IRS, an executive director is exempt from certain time-keeping requirements, as per its contract with ACS, the Board has directed the Executive Director to maintain timesheets documenting her time spent on the ACS program. ACS will monitor.	Joyce James, Executive Director	08/18/03	Continuing	Time Sheets	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Time Sheets; Field Visit Reports	

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RECOMMENDATION # 14 ACS officials should be accurate in their review and rating of the Center's time and attendance controls.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner, ACS Child Care

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS will accurately review the program's time and attendance controls.	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Time Sheets; Field Visit Reports	

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RECOMMENDATION # 15 ACS officials should review the salaries of the employees noted above and disallow any portion of their salaries that it feels is not attributable to the Center.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner, ACS Child Care

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS will review salaries against the budget and cost allocation plan and disallow any portion of salary not attributable to the ACS program.	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Payroll Register; Cost Allocation Plan; Audit	

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RECOMMENDATION # 16 Center officials should ensure that checks are recorded in the General Ledger at the time that they are issued.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The program has implemented this recommendation via its use of a computerized accounting program that records checks in the general ledger as they are issued. ACS will monitor implementation	Joyce James, Executive Director	08/15/03	Continuing	Program's computerized checkbook and general ledger.	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Program's Computerized Checkbook and General Ledger; Field Visit Report	

**ADMINISTRATION FOR CHILDREN'S SERVICES AUDIT IMPLEMENTATION PLAN
NEW YORK CITY COMPTROLLER'S AUDIT REPORT OF SUSAN E. WAGNER DAY CARE CENTER AND ITS
USE OF CITY FUNDS UNDER ITS CONTRACT WITH THE ADMINISTRATION FOR CHILDREN'S SERVICES
AUDIT NUMBER: MD03-175A**

RECOMMENDATION # 17 Center officials should ensure that checks are issued and recorded in sequential order.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
This recommendation has been implemented via the new accounting software. ACS will monitor.	Joyce James, Executive Director	08/15/03	Continuing	Checkbook	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Checkbook; Field Reports	

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RECOMMENDATION # 18 Center officials should ensure that checks are correctly recorded in the General Ledger to reflect the actual payee.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
This recommendation has been implemented via the accounting software. ACS will monitor.	Joyce James, Executive Director	08/15/03	Continuing	Checkbook; General Ledger	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/1/04	Continuing	Checkbook; General Ledger; Field Reports	

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RECOMMENDATION # 19 Center officials should ensure that the pages of the Centers check register are maintained separately from the pages of the program check register.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
This recommendation has been implemented via the accounting software. ACS will monitor.	Joyce James, Executive Director	08/15/03	Continuing	Check Registers	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Check Registers; Field Reports	

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RECOMMENDATION # 20 Center officials should ensure that checks that are void are listed as void in the General Ledger and the checkbook.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
This recommendation has been implemented via the accounting software. ACS will monitor.	Joyce James, Executive Director	08/15/03	Continuing	Check Register; General Ledger	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Check Register; General Ledger; Field Reports	

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RECOMMENDATION # 21 Center officials should ensure that they review their bank statements and place a stop order on checks that are outstanding for more than six months.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
This recommendation has been implemented via the accounting software. ACS will monitor.	Joyce James, Executive Director	08/15/03	Continuing	Bank Statements; Stale Check Reports	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Bank Statements; Stale Check Report; Field Reports	

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RECOMMENDATION # 22 Board officials should investigate why the two checks for fund transfers between Board accounts were not deposited.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
On May 5, 2004, the Board appointed two members to investigate the reason two checks for fund transfers between center accounts were not deposited but canceled after a long period of time. As of the date of this response, no report has been made. ACS is awaiting the results of the investigation. Once it is received, a determination regarding a course of action will be discussed.	Joyce James, Executive Director	05/05/04	Ongoing	Investigation Report	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	Current	Ongoing	Investigation Report	

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RECOMMENDATION # 23 ACS officials should be more accurate in their review and rating of the Center's financial practices.

RESPONSIBLE MANAGERS' NAME: Larry Lee, Associate Commissioner, ACS Child Care

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
ACS staff will continue to strive for accuracy in its review of the program's financial practices.	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Field Reports	

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RECOMMENDATION # 24 Center officials should ensure that they maintain supporting documentation for all expenditures.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
Although this finding was based upon a single incident over the course of an entire fiscal year, it has, nevertheless, directed center officials to be more diligent in maintaining documentation to support all expenditures. ACS will monitor.	Joyce James, Executive Director	05/06/04	Continuing	Expenditure Documentation: Approved Purchase Orders, Invoices, Cancelled Checks, Proof of Receipt.	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Expenditure Documentation: Approved Purchase Orders, Invoices, Cancelled Checks, Proof of Receipt; Field Reports.	

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RECOMMENDATION # 25 Center officials should maintain a separate ACS account to provide a clear audit trail for the receipt of day care funds and parent fees.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The program has already established a separate account for each program it administers. This includes an account solely for ACS funds and parent fees. ACS will monitor.	Joyce James, Executive Director	03/15/04	Continuing	Bank Statements	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Bank Statements	

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RECOMMENDATION # 26 Center officials should ensure that funds for other than Center program are transferred in their entirety into the appropriate program account and transferred on a timely basis.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES		DOCUMENTATION	COMMENTS
		START	END		
The Board has directed center officials to transfer all program funds in their entirety into the appropriate program account on a timely basis. ACS will monitor.	Joyce James, Executive Director	05/06/04	Continuing	Bank Statements	
	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04	Continuing	Bank Statements	

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RECOMMENDATION # 27 Center officials should implement internal controls to compensate for the lack of segregation of duties.

RESPONSIBLE MANAGERS' NAME: ENZY ANDERSON, BOARD CHAIRPERSON SUSAN E. WAGNER DAY CARE CENTER

CORRECTIVE ACTIONS TO BE TAKEN	RESPONSIBLE PERSON	DATES START END	DOCUMENTATION	COMMENTS
The Board feels that the duties with regard to the collection and deposit of parent fees are adequately segregated as the bookkeeper does not make the deposits.	Joyce James, Executive Director			
ACS appreciates the need for improved internal controls and does not believe that simply having another person make the deposit is adequate segregation of duties or evidence of adequate controls. ACS will continue to work with the program to improve their internal controls.	Larry Thomas, Executive Director, Sponsor Management & Compliance	06/01/04 Continuing	Program's Internal Control Procedures	