

OCFS Bureau of Budget Management – State Aid Rates Unit
DRAFT CPA Audit Guidelines for Standards of Payment System (SSOP) Submissions
Reporting Period: July 1, 2016 to June 30, 2017 Issued: 10/2017

An announcement was sent to all Voluntary Foster Care Agencies (VFCA) and Private Residential Schools¹ subject to cost reporting as detailed in the Standards of Payment (SOP) Manual through the medium of the Statewide Standards of Payment (SSOP) system via Guidance Document dated September 2, 2016:

3. New process: 2016-17 submission CPA requirement to verify submission in SSOP

To improve the accuracy of submissions, the Office of Children and Family Services (OCFS) has determined that Certified Public Accountant (CPA) review of the SSOP is required. Effective with the Rate Year (RY) 2016-17 submission, similar to the requirements of the Consolidated Fiscal Report (CFR) due November 1, 2017, OCFS will require each agency's CPA to sign off on the SOP submission.

The objective of the guidance is to provide some clarity for the VFCA in what a CPA must review to verify the VFCA's financial submission in the context of OCFS' practices for reviewing the submission. The VFCA must engage a CPA to perform an audit of the VFCA's books and records and produce general purpose financial statements that express an opinion on the fiscal position of the VFCA. Included below is a listing of the forms that must be completed by the CPA as part of the SSOP submission.

- In performing an audit of a VFCA's books and records and producing general purpose financial statements that express an opinion on the fiscal position of the VFCA, selected information directly from the audit report, along with backup data from the VFCA is then included in the forms that comprise the SSOP submission, as identified in the SOP Manual:
 - a. Program Information
 - b. Program Statistics (FC-2651)
 - c. Operating Specifications (FC-2651A)
 - d. Operating Unit Specifications (FC-2651B)
 - e. Job Title/Category
 - f. Ancillary Benefits (FC-2652A)
 - g. Actual Income (FC-2654)
 - h. Employee Distribution (FC-2668)
 - i. Parent Organization Details (FC-2856A)
 - j. Parent Organization Charges (FC-2856)
 - k. Purchase of Services (FC-3307)
 - l. Allocation Method (FC-3308)
 - m. Actual Expenditures (FC-2652)
 - n. Related Party Information
 - o. Fiscal Review Tool (FRT)
 - p. Annual Financial Reports Prepared by Your CPA For the Reporting Fiscal Year

¹ For purposes of these guidelines, a Private Residential School is considered a VFCA.

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The reporting period for the general purpose financial statements and the SSOP are generally the same. Unless otherwise previously approved by OCFS, the time period the SSOP forms cover July 1, 2016 through June 30, 2017. If the VFCA reports on a different reporting cycle, the VFCA must request an Alternative Period by using the Alternative Period Request Form (in SSOP). This period must agree with the VFCA's CPA report year. OCFS does not accept interim or part-year data for submission of rate calculation.

General Information

Annual voluntary VFCA SSOP system and FRT report submissions are due on November 1st. Upon request, OCFS may grant an extension of 30 calendar days. A further extension may be granted for a second period of 30 calendar days. Submissions are considered timely if they are received within fifteen calendar days after the due date or the date of the last approved extension.

OCFS guidelines are based upon the following assumptions:

- The accrual basis for accounting is required.
- The SOP Program Manual contains the instructions for the specific cost report period being audited/examined. The independent certified public accountant must have a working knowledge of the Manual including all updates, particularly those detailed in the SSOP Guidance Document letter for the relevant period. The SOP Manual and Guidance Documents are available at:
 - SOP Manual: <http://ocfs.ny.gov/main/rates/FosterCare/Manual/Default.asp>
 - SSOP Guidance Documents: <http://my.ny.gov/ssop>
- Income and expenses entered in SSOP should reconcile to the financial statements.
- **Note:** Each VFCA must make a submission to OCFS for each institution, group residence, group home program, VFCA boarding home program, and family foster boarding home program as well as an approved school for the handicapped; an income and expenditure report for the past fiscal period, including a program description and any supplemental reports in whatever form specified by OCFS.

SPECIFIC FORMS

FC Form – FISCAL REVIEW TOOL

OCFS traces amounts on the FRT Report to the audited financial statements (CPA reports). A VFCA cannot submit their annual SSOP report without first submitting the annual FRT report. Draft CPA report data will be acceptable for the preliminary FRT score as final CPA reports are not due until 30 days after the SSOP submission. SSOP will include a provision for entering parent organization data, if applicable to the VFCA. Preliminary FRT data can be revised at a later date by the VFCA, if necessary.

FC Form – PROGRAM INFORMATION

OCFS maintains the program names and types for the Group Care and Foster Care programs that have an active MSAR Program and verifies the MSAR Programs are reported separately and “Non-MSAR Programs” are reported as noted below. The VFCA is required to provide program information for those programs that do not receive MSAR funding. The “Non-MSAR Programs” are:

FC Medical Per Diem (Medicaid):

- Specialty Care
- General Care
- Bridges to Health (B2H) Health Care Integration Agency
- Bridges to Health (B2H) Waiver Services Provider

Other:

- Aftercare
- Federal
- Local
- Non-allowable cost center²
- Other
- Private
- State – Dormitory Authority of the State of New York (DASNY)
- State – Division of Criminal Justice Services (DCJS)
- State – Department of Health (DOH)
- State – Office of Temporary and Disability Assistance (OTDA)
- State – Office for Alcohol and Substance Abuse Services (OASAS)
- State – Office of Children and Family Services (OCFS)
- State – Office of Mental Health (OMH)
- State – Office for People with Developmental Disabilities (OPWDD)
- State – State Education Department (SED)

FC Form 2651 – PROGRAM STATISTICS FOR GROUP CARE (GC) AND FOSTER BOARDING HOMES (FBH)

OCFS compares current year amounts to the prior year submission amounts and questions significant changes in reported amounts. Specifically, OCFS looks for any significant changes in:

Group Care:

1. Care days – OCFS looks for significant changes in the number or the distribution of days (e.g., last year there were 200 Local DSS days, but only 40 this year)

² “Non-allowable cost center” programs may be reported separately or in the aggregate.

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2. Capacity – Changes in Capacity should be supported by an Operating Certificate (OC). If multiple OCs were in effect during a RY, they are used, pro rata, to calculate an effective capacity for the RY based upon the average capacity times the days of operation divided by the number of days the facility was open.

Foster Boarding Home:

1. Care days – OCFS reviews significant changes in the number or the distribution of days (e.g., last year there were 200 Local DSS days, but only 40 this year).
2. Adoption numbers (FBH) – OCFS reviews significant changes (e.g., last year there were 12 and this year none). OCFS questions when there are no adoptions reported. Adoptions affect parameter.

Audit:

1. OCFS, on a test basis, compares programs on SSOP to care days reports available to support the care days reported.

FC Form 2651A – OPERATING SPECIFICATIONS

Review:

- OCFS compares current year amounts to the prior year submission amounts and question significant changes in reported amounts. Specifically, OCFS reviews any significant changes in:
 - Capacity – Any changes in Capacity should be supported by an Operating Certificate (OC).
 - Operating Days – The number of Operating Days will normally be a full year. Any changes or variations would be substantiated by a check of the Operating Certificate(s). An explanation may be submitted in the comment section if those days are different than the effective period pre-populated in this form. VFCA must provide a valid explanation (e.g. fire, repairs, or facility closed for a specified period), subject to Regional Office concurrence.
- Programs are classified according to the characteristics of the children in care. The Classification determines a ratio of childcare workers to children for that program. After a program is classified, the staffing ratio, program capacity and program unit size are used to determine the number of FTE childcare workers that will be used to determine the programs child care parameter.
- This form is used to obtain information about the individual Group Care facilities within the programs for which OCFS sets Maximum State Aid Rates. VFCA must confirm the Dates of Operation for every licensed facility that operated during the July 1 through June 30 reporting period.

FC Form 2652A – ANCILLARY BENEFITS

Review:

1. OCFS checks that the Executive Director’s salary has been reported, even if he/she receives no Ancillary Benefits. Thus, OCFS expects to see salary and fringe benefit data for an Executive Director with a salary of less than \$100,000 and no Ancillary Benefits. A scan of the **FC Form 2668** comparing Total FTE’s to Total Amount may indicate other individuals receiving \$100,000 or more annually. All should be reported.

Audit:

1. OCFS verifies that the Executive Director salary was reported, regardless of amount.
2. OCFS verifies that all positions receiving \$100,000 or more annually, and all positions regardless of salary, for which the individual received fringe benefits which are above what is provided to other employees are reported. Include a comprehensive description of each benefit. Examples of ancillary benefits that are to be reported are Housing, Food, Maintenance Services, Personnel Services, Transportation, Travel, Sabbatical, Bonuses, Contractual Items and Tuition Payments. It is not all-inclusive. Similar in-kind benefits must also be reported.

FC Form 2654 – ACTUAL INCOME

Review:

1. OCFS reviews the current submission and compares it to the previous year’s, looking for any significant changes (either by percentage or gross dollar amount) in reported amounts. Descriptions given (for A, B, or C income) are reviewed to assure the income is in the correct section.
2. Applied Income (A-income) that is used to reduce operational expenses, and will be automatically “applied” in the rate calculation to reduce the net rate base before calculating the MSAR.
3. Fee for Service (B-income) that represents payments for services provided in the program. Other Income (C-income) that represents other sources of income associated with the program.
4. OCFS reviews B- and C-income items that should be used to reduce a line item expense on the 2652 expense report. If a lesser amount is reported on the 2652 than on the 2654 for the applicable income, only reduce the amount of the expense back to 0 (i.e., do not create a negative expense). Examples are:

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- Employee payments for room and board (to reduce the direct care cost).
- Transportation fees reported as a separate payment (to reduce the transportation cost).
- Interest income (to reduce interest expense for operations).
- Insurance refunds (to reduce insurance expenses).
- Initial clothing payments – As long as there is an expense reported for the initial clothing line item, it is not necessary to reduce that expense because that line item is not included in the MSAR calculation.

Grants:

- OCFS reviews the label or description for each grant, which should be sufficient to assess its purpose and source.
- A government grant that reduces the program's cost of care should be reported as Applied (or A) Income. Where it is misreported as B or C income, the VFCA should be advised to move the grant to Section A.
- A government grant for specialized items and services (normally not covered by the OCFS-established program rate) should be reported in a non-MSAR cost center, where the VFCA would match its expenses to the grant income.
- Income obtained from private sources, including private foundation grants and other private contributions, should be reported as C Income.
- Grant writers and fund raising staff are a disallowed cost.

One-to-One Aides:

- OCFS reviews 1:1 Aides, which are non-allowable because agencies receive reimbursement outside of the MSAR for them. Agencies may report 1:1 Aides within the MSAR program. OCFS removes the costs from the MSAR cost center and reallocates to the agency's Non-allowable cost center.
- When 1:1 Aides are reported in an MSAR foster care program the VFCA must report the 1:1 Aide income as C-Income. If it is reported as A-income, the A-income will reduce the rate base with no offset since the expenses are reallocated.
- When 1:1 Aides are reported in a non-MSAR cost center, the expenses and revenue should be reported separately.

Fund Raising/Development:

- OCFS reviews Fund Raising/Development staff, which are not allowed in MSAR programs and should be reported in a non-MSAR cost center.

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- Any Fund Raising/Development expenses should be included in a non-allowable cost center. It may be necessary to ask the VFCA to explain where it reported such expenses to be sure that such expenses will not be reimbursed in the MSAR program. If such expenses are reported within an MSAR or Medical cost center, OCFS removes Fund Raising/Development costs from the MSAR cost center and reallocates them to the agency's Non-allowable cost center.

Audit:

- OCFS, on a test basis, traces revenue by category and program/site to the supporting documentation. OCFS verifies that Applied Income is used to reduce operational expenses and will be automatically "applied" in the rate calculation to reduce the net rate base before calculating the MSAR. Income from the NYS Milk Fund is common in this category. When 1:1 Aides are reported in an MSAR foster care program (as opposed to in a non-MSAR cost center where the expenses and revenue could be matched), then the VFCA must report the 1:1 Aides income as A-Income.
- OCFS verifies that programs funded by Medicaid are reported as Medicaid revenue under Form 2654, and those programs not funded by Medicaid are not reported as Medicaid revenue under Form 2654.

FC Form 2668 – EMPLOYEE DISTRIBUTION

OCFS compares current year amounts to prior year submission amounts and current year audited financial statement amounts. OCFS will consider inquiry of allocation methods used for both direct and indirect expense.

Review:

- Some changes may be explained by changes of personnel within a program. Other changes may not be as clear and the VFCA may have to provide an explanation. For example, the VFCA may have a dramatic decrease/increase in Total Child Care Salaries, but they may have also increased/decreased the total number of FTEs in Child Care by the same percentage. Or, there may be documentation about the closing of a whole unit. The VFCA should be asked to provide an explanation where there is no available information to explain the change.
- A portion of the Executive Director's salary is expected to be allocated to all programs, including Medicaid, as oversight is required – Supervision is expected.
- If there is an overall increase in expenditures, there may also be an increase in number of care days or capacity.

Audit:

- OCFS, on a test basis, verifies that the appropriate position title code has been used.

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- OCFS, on a test basis, inquires about, and reviews the procedures used to determine that contracted positions are not included on this form.
- OCFS, on a test basis, inquires about the standard work week and ensure that it is consistent with that used on the SSOP.
- OCFS, on a test basis, inquires if employees are working in multiple program/sites and/or multiple job functions and/or program administration and/or VFCA administration. If yes, review the allocation methodology(ies) used to ensure they are consistent with the allocation requirements in the SSOP Program Manual. [These procedures would have been performed in connection with a comprehensive payroll test.]
- OCFS, on a test basis, traces the number of days/hours worked and hourly rates as reported in the payroll records, with the number recorded on the time sheets and in the approved pay forms. For any employee in the test group who was hired or terminated during the year confirm that payroll changes and pay rates are in accordance with the VFCA 's policies and procedures.
- OCFS, on a test basis, uses analytic procedures to test for variances which may indicate inaccurate reporting of salaries per FTE.

FC Form 2856A – PARENT ORGANIZATION DETAILS FORM

- If a parent organization or affiliated agency provided services that would otherwise be provided by VFCA staff, report its name, address, and contact information.

FC Form 2856 – PARENT ORGANIZATION CHARGES

- If a parent organization or affiliated agency provided services that would otherwise be provided by VFCA staff, report these costs.

FC Form 3307 – PURCHASE OF SERVICES

Review:

- OCFS compares actual titles from previous year with the type of service and description given this year.
- OCFS verifies that general expenses are appropriate (no significant changes).
- OCFS verifies the description matches the type of service and is appropriate for that type of service.
- Consultants – the VFCA must note what kind of consultant was hired.
- If the specific type of consultant and service is not provided, OCFS may request information from VFCA.

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- Some consultants are not allowable (i.e. Grant Writers, portfolio consultants).
- If any of the services or amounts (\$1M bank fees?) are unclear, OCFS questions the VFCA for more details.
- If the service or amount is unacceptable, it should be in a non-MSAR cost center.

Audit:

- OCFS inquires about the method used in identifying contractual arrangements. OCFS reviews the form and compares to other audit/examination work for possible omissions.
- OCFS, on a test basis, determines that the appropriate expense line from Form 2652 has been used.

FC Form 3308 – EXPENSE ALLOCATION FORM

Review:

- OCFS compares last year's method of allocation to this year's method.
- All changes to allocation methods must be approved in advance.
- If there are any changes, OCFS questions the VFCA for a reason.
- OCFS verifies the allocation method is appropriate to the expense. For example, it makes sense to allocate Utilities by square feet but not Child Care Workers.
- If the VFCA selects other, OCFS verifies that the allocation method is a valid allocation method and that it is appropriate to the expense associated with.

Audit:

- OCFS verifies that any allocation method used provides for a reasonable distribution of cost and can be substantiated. The allocation method chosen must relate to the type of expense. For example: for property expense use the Square Feet allocation method; for food use the Days of Care allocation method; for vehicles use the Percent of Vehicle Usage allocation method.

FC Form 2652 – ACTUAL EXPENDITURES

Review:

- OCFS reviews the current submission and compares it to the previous year's submission, current year audited financial statements and other VFCA data for similar expenses to determine whether expenses are reasonable.

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- OCFS verifies expenses such as Fundraising, Medical and 1:1 Aides are not included in MSAR programs. OCFS inquires about allocation methods used for both direct and indirect expense.
- OCFS questions other anomalies that are discovered upon review (i.e., expenses that don't make sense for the type of program, expenses that suddenly appear, or suddenly are missing, etc.).
- OCFS questions any significant new expense title not previously used (such as expenses under transportation where the VCFA did not have transportation expenses before).
- Each MSAR program must have an allocation of the Executive Director, as well as other allocations for administrative direction.
- Lines with the description "Other" (21D Utilities and 38E Use Charges) should have an explanation or a justification for the file.

Audit:

- For line 2G - Vacation/Sick Accrual, OCFS tests related records to verify that the proper vacation accruals have been posted to this line by program/site. The entry on this line must be the difference between the accrual posted at the end of the last cost report period and the current cost report period. An entry only needs to be posted if a vacation accrual adjustment is made at year-end.
- OCFS agrees or reconciles subtotals for each program to amounts in the financial statements. OCFS agrees or reconciles subtotals for each program to amounts in the client prepared supporting documentation. OCFS compares the amounts per site to similar amounts for prior years. OCFS compares amounts by site to VCFA prepared allocation documentation.
- OCFS, on a test basis, traces items of expense not transferred from other audited/examined forms to trial balances or client prepared allocation documentation to determine that amounts are reasonable.
- OCFS, on a test basis, verifies that OTPS, equipment and property expenses have been allocated to programs and sites using an acceptable allocation method as described in SSOP Program Manual.
- OCFS, on a test basis, verifies whether the adjustments on Form 2856 Parent Organization Charges (Org) are complete, accurate and in compliance with the policies, procedures and guidelines defined and described in the SSOP Program Manual.
- OCFS, on a test basis, traces amounts on lines 3-38E to general ledger accounts, trial balances, or VCFA prepared supporting documentation.
- OCFS verifies that the costs reported on this form are appropriately classified as Agency Administrative Costs.

FC Related Party Information Form

The VFCA is required to report whether it has conducted business activities with a Related Party or a “Less than Arm’s Length Association.” If they have, the VFCA is required to report a description of the nature of the relationship, the business activities conducted, and the terms. Related Party does not refer to family members on the VFCA’s payroll.

Review:

- OCFS checks that any references to related party items in the audited financial statements are reported on the SSOP.

Audit:

- OCFS reviews the procedures for identifying related organizations/individuals. OCFS obtains a list of related organizations/individuals and any transactions between the SSOP reporting entity and related organizations/individuals. Based upon a reading of Board of Director meeting minutes, contracts, and other documentation, OCFS considers whether the list of related parties and transactions is complete.
- OCFS reviews the form of transactions with related organizations/individuals for completeness and accuracy of the disclosures.
- OCFS, on a test basis, will check that transaction costs that are greater than the actual cost to the related organization or individual are properly adjusted in accordance with the policies, procedures and guidelines defined and described in the SSOP Program Manual.
- OCFS, on a test basis, reviews the methods used to allocate costs of lease/rental agreements with related organizations/individuals to program/sites on FC Form 2652.