

**DIVISION OF FINANCIAL SERVICES**

**AUDIT AND RISK MANAGEMENT**

**FISCAL YEAR 2020 CHILD WELFARE**

**AUDIT INSTRUCTIONS**

**FINANCIAL STATEMENTS**

**ACS SUPPLEMENTARY SCHEDULES**

***Revised on 10/1/2020***

***With changes to the following Sections:***

* ***Table of Contents-*** *Application of the Approved Indirect Cost Rate (ICR) Schedule)*
* ***Introduction*** *(Audits of Discretionary contracts over $100,000 (p. 1)*
* ***Section VI*** *(Audits of Discretionary contracts over $100,000 (p. 6) and the Application of the Approved Indirect Cost Rate (ICR) Schedule ) (pp. 7-8)*
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# Introduction

Contractors are required to submit an annual audit of their financial statements covering a fiscal period of one (1) year. Audited Financial Statements and ACS reviewed Supplementary Schedules are due to ACS by March 31, 2021, nine (9) months after the close of the Fiscal Year. For those contractors whose books are maintained on a calendar year basis the audited Financial Statements and ACS Audited Supplemental Schedules are due to ACS by September 30, 2021, nine (9) months after the close of the calendar year.

The Audited Financial Statements and ACS reviewed Supplemental Schedules must follow the Audit instructions for FY 2020. Financial Statements must include all the required components --and audited schedules to be considered complete by the due date. Lateness, incompleteness and inaccuracy of the audit reports and financial statements will be factored into the fiscal component of the annual contract performance evaluation for FY 2021.

These audit instructions are not a complete manual of procedures nor should it supplement the auditor’s judgment of the audit work required. The procedures contained in these instructions are not intended to cover all circumstances or conditions that would be encountered in an audit of every contractor. The auditor should use professional judgment to tailor their procedures to meet the conditions of the engagement so that the audit objectives may be achieved.

**Audited Financial Statements are required for the following contracts:**

* Prevention
* Homemaking
* Discretionary Child Welfare Contracts greater than $100,000
* Non-Secure Detention (NSD)
* Foster Care
* Close 2 Home

The Fiscal Year 2020 ACS Audit instructions and any updates can be found on the ACS public website: [**https://www1.nyc.gov/site/acs/about/child-welfare-providers.page**](https://www1.nyc.gov/site/acs/about/child-welfare-providers.page)

## Audit and Financial Reporting Requirements

All Human Services Contractors are required to submit an annual audit of their Financial Statements and ACS Supplementary Schedules to ACS by March 31, 2021, for contractors keeping their books on a calendar year the due date is September 30, 2021.

The audit must be performed in accordance with Generally Accepted Accounting Principles (GAAP), Generally Accepted Government Auditing Standards (GAGAS), Non-profit Auditing Standards, and ACS Audit Instructions.

* **Audited Financial Statements must include:**
* Independent Auditor’s Report
* Financial Statements
  + - * Statement of Financial Position
      * Statement of Activities
      * Statement of Cash Flows
      * Statement of Functional Expenses
      * Notes to Financial Statements:
* Auditor’s report on compliance and findings
* Auditor’s report on internal controls over financial reporting and findings
* Schedule of Findings
* Schedule of Prior Year Findings
* Corrective Action Plan (where applicable)
* **Audited ACS Supplementary Schedules (See Section VI)**

Audit and Financial Reporting packages which do not contain the required Opinions, Statements and Schedules will be classified as incomplete. Incompleteness will factor into the provider’s fiscal portion of the annual contract performance evaluation.

**II. Digital Audit Documentation Policy**

All Certified Public Accountants (CPAs) or Auditors contracted by NYC agencies to conduct audits of Human Service Contracts, may collect documents during the audit planning exclusively through the HHS Accelerator Document Vault.

The Document Vault may also be used to transfer additional documents needed by the CPA or authorized auditor during the audit. This recommendation excludes audit sample documents that would be reviewed on site by the auditors.

Digital Audit Documentation Policy includes:

* Most recent Char 500
* Most recent 990
* Most recent audited Financial Statement and Single Audit if applicable
* Certificate of Incorporation.
* Corporate by‑laws.
* IRS determination letter (501c3).
* All correspondence with the IRS regarding tax exempt status from the last 3 years.
* New York State sales tax exemption certificate.
* Organizational charts for the Organization and for accounting department.
* Personnel policy manual
* Accounting manual or procedure manual for the accounting department. If too voluminous, copy of table of contents only.
* Board of Directors List (showing titles if they are officers).
* Conflict of Interest policy.
* Board Minutes
* Anti-Nepotism policy
* Agreements / policies in effect for fringe benefits claimed to the contract (i.1. Retirement benefit, health insurance etc.)
* Insurance policies in effect (top sheets only showing the summary of coverage).
* All required payroll tax returns
* Consulting agreements
* Lease Agreements and mortgages
* Claiming Billing Reports if reimbursement-based
* Budget and budget modifications if reimbursement-based
* Bank reconciliation statements
* Copies of any audits from: IRS, NYS Charities Bureau or other government sources conducted in the last 3 years.
* Check signatories / staff authorized to conduct banking.
* Chart of accounts including funds maintained (restricted, etc.) and cost centers; final trial balance from previous fiscal year.
* A list of who has an Organization credit card, and type of card (Amex, etc.).
* Copies of audited Independent CPA audit reports
* Single Audit and management letter
* Cost allocation methodology for PS and OTPS

**III. Procurement of Audit**

Procurement of the audit must adhere to the City of New York Procurement Policy Board rule §3-10(k) which states: “A Prequalified List (PQL) of auditors shall be maintained by the Comptroller in accordance with this section. Contractors seeking to award an audit contract shall solicit only those firms that have been prequalified by the Comptroller.”

Contractors should secure and retain documentation that the CPA firm was on the prequalified Comptrollers list at the time of engagement. Audits conducted by firms that are not on the PQL will be rejected by ACS

Please refer to NYC Comptroller approved CPA list at:

[***http://comptroller.nyc.gov/general-information/prequalified-cpa-list/***](http://comptroller.nyc.gov/general-information/prequalified-cpa-list/)

ACS recommends that the contractor reach out to a minimum of three (3) CPA firms or auditors when requesting proposals for audit services.

**IV. Generally Accepted Government Auditing Standards (GAGAS)**

GAGAS, commonly referred to as the "Yellow Book”, are produced in the United States by the Government Accountability Office (GAO). The standards apply to both financial and performance audits of government agencies.

In conducting a single or program-specific audit, the auditors must follow GAGAS, which is promulgated by the Comptroller General of the United States. GAGAS includes general standards, fieldwork standards, and reporting standards.

1. **General Standards**

The General Standards contain the following requirements:

* The audit firm and staff must be proficient and independent when performing government audits;
* The audit staff must maintain their proficiency by enrolling in a program of continuing professional education; and
* The audit organization must have a system of quality control in place and have undergone a recent peer review.

**B. Field Work Standards**

Under GAGAS, these are the same as the American Institute of Certified Public Accountants (AICPA) standards. They require the auditors performing financial statement audits to plan the audits, supervise the staff, and review the auditee’s internal control. In addition, the auditors must gather sufficient and appropriate evidence to support their findings and conclusions.

**C. Reporting Standards on Financial Statements**

When auditors issue a financial report on a contractor, they must prepare the report in accordance with GAGAS, which incorporates the AICPA standards. GAGAS requires the auditors to state in the report whether or not the contractor’s financial statements are presented fairly in all material respects in accordance with Generally Accepted Accounting Principles (GAAP).

**D. AICPA Statements on Auditing Standards**

The AICPA issues the Statements on Auditing Standards (SAS) to provide clarification on the application of the standards of field work and reporting. The auditors must refer to them when they are conducting audits.

**E. Internal Control and Compliance**

The auditor is required (GAGAS) to perform an assessment of the contractor’s internal control to determine the level of control risk and their impact to the financial statements. Likewise, the auditors must determine if the contractor complied with laws, regulations and the provisions of contracts or grant agreements.

# V. Follow-up: Summary Schedule of Prior Audit Findings and Corrective

# Action Plan

The contractor is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the contractor must prepare a summary schedule of prior audit findings and a corrective action plan for the current year audit findings. The summary schedule of prior audit findings and the corrective action plan for each of the findings must include the reference numbers the auditor assigns to audit findings**.**

**A. Summary Schedule of Prior Audit Findings**

The summary schedule of prior year audit findings must report the status of all audit finding that were included in the prior year audit’s schedule of findings and questioned costs. The summary schedule must also include updates on audit findings reported in the prior year’s audit summary schedule of prior audit findings.

**B. Corrective Action Plan**

At the completion of the audit, the contractor must prepare the corrective action plan to address each audit finding included in the current year audit report. The corrective action plan must provide the name(s) and title(s) of the contact person(s) responsible for the corrective action, the corrective action planned, and the anticipated completion date. Documented corrective action plans should be taken on all audit findings. This includes a report on corrective action steps taken for prior audit findings.

# VI. Supplementary Schedules

Supplementary schedules are required for Prevention, Homemaking, NSD, Foster Care COVID expenses, Close to Home COVID expenses and Discretionary Child Welfare contracts over $100,000. It is the Auditor’s responsibility to review the Supplementary Schedules as part of the complete reporting package to satisfy ACS monitoring responsibility. The required schedules are listed below by Program and are included in the attachments.

**NEW & OPTIONAL** - Close to Home programs (Non-Secure Placement and Limited Secure Placement) have the option of completing all the supplementary schedules in lieu of a program audit for FY 2020. However effective FY2021 all Close to Home contractors will be required to submit Supplementary Schedules with the audited financial statements replacing the Program Audit.

Audited ACS Supplementary Schedulesmust be tied to the general ledger and accurately reflect the amount in the appropriate cost centers at the year-end close.Audited ACS Supplementary schedules must not include accrued vacation, depreciation and any administrative expenses beyond the Indirect Cost Rate approved by the City of New York.

**Prevention Program Contract**:

* Schedule 1 – Statement of Revenues and Expenditures
* Schedule 2 – Schedule of Salaries
* Schedule 3 – Schedule of Fringe Benefits
* Schedule 4 – Schedule of Furniture and Equipment Inventory
* Schedule 5 – Schedule of Questioned Costs
* Schedule 6 – Schedule of Quantitative Program Results
* Schedule 7 – Child Success New York City (CSNYC) Statement of Revenues and

Expenses (Excludes Waiver Portion of CSNYC)

* Schedule 8 –Application of the Approved Indirect Cost Rate (ICR) (see Section VIII)

Providers with a CSNYC program must complete Schedule 7 for the Prevention portion of their CSNYC funding. The Waiver portion of CSNYC funding **MUST NOT** be included on Schedule 7.

**Homemaking Contracts**

* Schedule 1 – Statement of Revenues and Expenditures
* Schedule 2 – Schedule of Salaries
* Schedule 3 – Schedule of Fringe Benefits
* Schedule 4 – Schedule of Furniture and Equipment Inventory
* Schedule 5 – Schedule of Questioned Costs
* Schedule 6 – Schedule of Quantitative Program Results
* Schedule 7 –Application of the Approved Indirect Cost Rate (ICR) (see Section VIII)

**Child Welfare Discretionary** awards over a hundred thousand dollars ($100,000):

* Schedule 1 – Standard Statement of Revenues and Expenditures
* Schedule 2 – Standard Schedule of Salaries
* Schedule 3 – Standard Schedule of Fringe Benefits
* Schedule 4 – Standard Schedule of Furniture and Equipment Inventory
* Schedule 5 – Standard Schedule of Questioned Costs
* Schedule 6 –Application of the Approved Indirect Cost Rate (ICR) (see Section VIII)

**NEW Non-Secure Detention (NSD)**

* Schedule 1 – Standard Statement of Revenues and Expenditures
* Schedule 2 – Standard Schedule of Salaries
* Schedule 3 – Standard Schedule of Fringe Benefits
* Schedule 4 – Standard Schedule of Furniture and Equipment Inventory
* Schedule 5 – Standard Schedule of Questioned Costs
* Schedule 6 – Application of the Approved Indirect Cost Rate (ICR)

**NEW Foster Care**

* Schedule 1 – COVID Revenue and Expenditures

**NEW Close to Home**

* Schedule 1 – COVID Revenue and Expenditures

The Statement of Revenue and Expenditures identifies actual expenses. The final closeout for Prevention, Homemaking, NSD and Discretionary contracts over $100,000, will be computed from this schedule comparing the revenue to the total final approved budget amount and actual allowable expenditures.

All schedules must be covered by an Auditor’s Report on Supplementary Information concluding that **“Supplemental Schedules are presented for the purposes of additional analysis.”**

**VII. Cost Allocation Plan (CAP)**

All contractors are required to have a Cost Allocation Plan based on contractual agreement with ACS and in accordance with Federal regulations. The Cost Allocation Plan should accurately and equitably allocate costs that are attributed to the operation of two or more programs or which are attributable to two or more funding sources.

**VIII. NEW Indirect Cost Rate (ICR)**

The Indirect Cost Rate (ICR) is the proportion of the indirect costs that an individual program should bear and may charge to the contract. In March 2019 New York City developed a Cost Policies and Procedures Manual in order to standardize the calculation of Indirect Cost across Health and Human Services contracts. The process of establishing and claiming indirect cost reimbursement using an ICR was overseen by the Citywide Implementation Team (CIT) which was co-led by MOCS and OMB. The Cost Manual principals and the ICR became effective July 1, 2019 for all new contracts and is regularly updated.

For FY20 the following options for calculating indirect costs were:

* + - 10 % de Minimis Rate (effective for three years)
    - Federally Negotiated Indirect Cost rate (effective for three years)
    - CPA approved Rate (effective for three years)
    - Conditional Rate up to 12% (valid for FY20 only)

ICR requests were reviewed and approved by the CIT. Evidence of the CIT approval and supporting documentation can be found in the Provider’s Vendor Profile in PASSport.

**ICR Contractor Responsibility**

It is the contractors’ responsibility to furnish the auditor with 1) the backup documentation for their FY20 ICR and 2) CIT proof of acceptance the ICR to substantiate the claimed indirect costs.

A new schedule indicating how the ICR was applied to each program is required of all contractors affected by the ICR. The schedule must be reviewed and signed by the Agency CEO, CFO or Comptroller. It is the Contractor’s responsibility to ensure that the correct rate was applied, and expenses charged in accordance with the approved ICR and Cost Manual. Please see the link below.

[**https://www1.nyc.gov/assets/nonprofits/downloads/pdf/NYC%20HHS%20Cost%20Policies%20 and%20Procedures%20Manual.pdf**](https://www1.nyc.gov/assets/nonprofits/downloads/pdf/NYC%20HHS%20Cost%20Policies%20%20and%20Procedures%20Manual.pdf)

**IX. NEW - COVID Expenditure Reporting**

All COVID related expenses are to be reported separately on schedule 1 Statement of Revenues and Expenditures. In each spending category distinct rows for COVID related expenses have been inserted for reporting purposes.

Only expenses included in the below categories are eligible to be reported as COVID related:

# Personnel (outside of the regular hours/duties)

# Supplies

* + In-stock Supplies
  + Purchased Supplies

# Equipment/Technology

* + Provider-Owned Equipment
  + Rented or Purchased Equipment

# Contracts

# Other

Please refer to the COVID expense template submitted to and approved by OMB. Only those expenses approved by OMB should be reported in the COVID expense lines

**The following services, activities, and costs are ineligible:**

* + Costs that have been or will be submitted by the contractor for reimbursement through insurance
  + Costs that have been or will be submitted by the contractor for reimbursement by other Federal or State contracting entities
  + Costs that have been or will be submitted by the contractor for reimbursement by other grantors or private funders
  + Costs related to the application of an organization’s indirect cost rates
  + Cost Plus Percentage of Cost (CPPC)

Contractors should maintain records of all COVID 19 related expenditures as well as narrative explanation that summarizes how these activities and services directly relate to COVID 19 response and be able to provide those records upon request. The narrative should directly relate to the services and expenses per category below. Contractors are required to maintain separate cost centers or grant codes within their organizational financial management systems to track cost related to COVID 19. All city contracts remain subject to audit, including emergency contracts, amendments, or charge orders that are received for COVID 19 response. Digital copies are acceptable.

**X. Performance Based Budgets**

Budgets for contractors with performance-based programs (General Prevention and Family Treatment and Rehabilitation) continue to be contingent on meeting their program goals. A reduction of up to 10% of their budget was applied if the contractor did not meet the performance-based goals. The audits for these programs will be based on the final approved budget.

# XI. Closeout Payments through Accelerator Financials

The final closeout is computed by comparing the actual expenses reported on the Statement of Revenue and Expenditures to the payments received from ACS for the FY2020 service period. Expenses exceeding the payments up to the total final approved budget will result in a payment due from ACS. Payments exceeding these expenses will result in a payment due to ACS. A final closeout letter and closeout report will be sent to each contractor upon completion of the review.

Foster Care and Close to Home contractors that choose not to submit schedules will continue to submit a program audit which will be used to reconcile payment rates.

**Closeout Payment in Accelerator Financials (AF)**

Closeout amounts due to contractors must be invoiced through AF. Each closeout invoice submitted must include scanned copies of the following to serve as supporting documentation for payment:

* Final closeout letter from ACS stating the Due from ACS amount
* Final closeout report

Payment requests submitted without the documentation described above will not be processed.

# XII. Submission of Audit and Supplementary Schedules

One (1) Bound copy of the Audit and Financial Reporting Package must be sent to the ACS Financial Services Audit and Risk Management Unit. The bound copy must be addressed to:

Cheryl Brathwaite, Special Assistant

Administration for Children’s Services

Division of Financial Services, Audit and Risk Management

150 William Street, 10th floor

New York, New York 10038-2614

**A PDF copy of the final Audit and Financial Reporting Package should be submitted via E-mail in a PDF format to** [AuditRiskMgmt@acs.nyc.gov](mailto:AuditRiskMgmt@acs.nyc.gov)

**ATTACHMENTS**