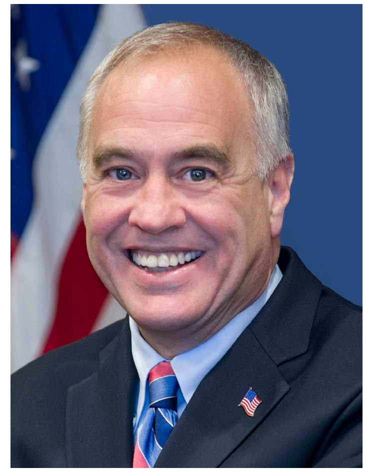
2018 Annual Report on Preschool Special Education Audit Initiative

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

MAY 2019

Message from the Comptroller



May 2019

Special education programs fulfill a great need across New York State, providing a quality learning experience that addresses individual differences and needs to young people with disabilities. While many private special education providers use public funds conscientiously and in accordance with State laws, rules and regulations, there are others that abuse the system and misuse the funding they receive from the State and local governments, squandering taxpayer dollars and depriving disabled children of the learning opportunities they need and deserve.

Over the last decade, my office has found a troubling pattern of mismanagement, waste and even fraud by numerous private providers of preschool special education services. Our audits have uncovered inaccurate and inappropriate self-reported program costs, as well as ineffective program monitoring and oversight. As a result, children needing special education services have been shortchanged by those private providers who have used public funds inappropriately.

The State Legislature responded to these reports of abuse by passing legislation requiring my office to audit the expenses submitted for reimbursement by every provider of preschool special education services to the State Education Department (SED), and to report annually on our findings to the Governor and the Legislature. This is the fifth such annual report.

To improve oversight and management of this essential public program, we've coordinated our audit efforts with SED, the New York City Department of Education, the New York State Association of Counties, and the individual counties themselves. We also provide training to county officials and private providers to explain the importance of this initiative and to discuss the steps in the OSC audit process, the findings of our audits, and the need for strong internal controls.

As we carry out our responsibilities to monitor the costs for preschool special education services, my office will continue to emphasize the importance of critical internal controls and responsible external oversight.

Thomas P. DiNapoli
State Comptroller

Contents

Overview

The State Education Department (SED) oversees special education programs which provide services to students with disabilities between the ages of 3 and 21 in New York State. While most school-age students with disabilities in New York receive their educational services from public school districts, preschool special education services are predominantly provided by private providers. SED reports that about 79,000 preschool students with disabilities received services throughout the State from over 400 approved providers at an annual cost of almost $1.4 billion to the State and its local governments.

Private special education providers can be for-profit or not-for-profit organizations. These providers must be approved by SED to deliver special education services to children. SED annually develops rates for preschool special education programs operated by approved providers based on actual costs reported to SED. These rates are used to reimburse providers for eligible costs, which must be in compliance with comprehensive instructions and guidelines promulgated by SED.

Since 2004, the Office of the State Comptroller (OSC) has conducted 130 audits of expenses submitted to SED by preschool special education providers, which focused on compliance with SED cost-reporting guidelines and on the accuracy and appropriateness of provider-reported program costs. These audits identified patterns of providers seeking reimbursement for unsupported expenditures, expenses claimed for other programs, personal expenses included with program expenses, no-show jobs, and increased costs associated with less-than-arm's-length transactions. To date, these audits have cumulatively identified over $84 million in cost savings and resulted in 11 criminal convictions.

In June 2012, Comptroller DiNapoli announced a special education audit initiative which involved a broader, sector-wide perspective as well as multiple concurrent individual audits, better coordination with SED and the New York City Department of Education, input from various interested parties, use of data analysis and risk analysis, and use of fraud and forensic auditing techniques. Comptroller DiNapoli also proposed legislation to improve the oversight of public funding for preschool special education providers.

As a result, Chapter 545 of the Laws of 2013 was signed into law on December 18, 2013. The law required the State Comptroller to audit the expenses reported to SED by every program provider of special education services for preschool children with disabilities, subject to the funding made available by the Legislature for such purpose. During 2018, OSC completed 18 audits, including 17 preschool special education providers and one school-age special education provider. These audits have cumulatively identified almost $14.8 million in recommended disallowances. In addition, OSC audits questioned almost $8 million in other costs.

Section 200.18 of the Regulations of the Education Commissioner was amended in 2016 to make clear that SED shall review final audit reports, which shall be used to establish tuition rates based on audit to the extent the Commissioner determines that the audit findings and recommended disallowances contained therein are warranted and consistent with applicable laws, regulations and guidelines.

OSC Initiative Activities

As required by Section 4410-c of the Education Law, OSC developed a risk assessment process to prioritize the preschool special education audits to be undertaken in accordance with the initiative. OSC established an internal workgroup to perform ongoing analysis to continually assess risk for the expenses reported to SED and the other agencies that require providers to file an annual Consolidated Fiscal Report (CFR). As small, community-based not-for-profits offering one particular service are increasingly being replaced by larger, multi-funded agencies operated by parent companies and providing a range of related services, the CFR and subsequent audit processes have become more complex.

The workgroup identified a number of risk factors and applied them to multiple data sources. The workgroup assesses its methods against prior and current audit work to validate the model's effectiveness. Applying advanced analytics techniques has allowed the workgroup to more efficiently refine its model.

Collaboration with Other State Agencies

In 2018, OSC's partnership with the Staten Island District Attorney's Office led to the indictment and arrest of the owners and operators of a Staten Island special education provider, the Gingerbread Learning Center, for the theft of over $750,000 in State funds. OSC's joint investigation uncovered highly suspect expenditures by the owner and his spouse using funds earmarked for special education, including landscaping for the owner's private residence in New Jersey, Costco purchases and personal cell phone bills. In March 2019, the Gingerbread Learning Center owner and his wife pleaded guilty to grand larceny in the second degree and were ordered to repay $800,000.

Audit Findings

In 2018, OSC completed 18 audits of expenses submitted to SED by special education providers, including 17 preschool special education providers and one school-age special education provider. These audits have cumulatively identified almost $14.8 million in recommended disallowances, or almost 4 percent of the total claimed expenses of $372 million for the audit period. In addition, OSC audits questioned almost $8 million in other costs. There are currently 14 additional audits in progress.

Disallowed expenses range from claimed costs for services provided directly to children to administrative functions. OSC's audits have uncovered inaccurate and inappropriate self-reported program costs, as well as ineffective program monitoring and oversight.

The audits completed in 2018 indicate that there continue to be inaccuracies in cost reporting by special education providers to SED. The dollar amount of audit findings increased, from $12.5 million (or 2.76 percent of the total claimed) in 2017 for 23 audits completed, to almost $14.8 million (or 3.97 percent of the total claimed) in 2018 for 18 audits completed. The number of findings in certain categories continues to be of concern. In particular, errors related to the allocation and/or the inappropriate claiming of personal service and other-than-personal-service (OTPS) expenses claimed from other programs and parent company agency administration costs remain widespread.

The 2018 audit findings can be summarized as follows:

Expenses Claimed for Costs from Other Programs – Private special education providers can offer more than preschool special educational services to their students. For instance, providers may also offer evaluation services, day care services, early intervention services or other social services. However, payments for services under these types of programs are based on fixed fees for services, as opposed to reported costs on the CFR.

Revenues, expenses (including personal service and OTPS), staffing, enrollment and shared costs are all self-reported within the CFR schedules in the aggregate and allocated to each program administered by the provider. CFRs can become further complicated when shared costs are allocated to programs reimbursed by different State agencies. The Consolidated Fiscal Reporting and Claiming Manual (CFR Manual) and the Reimbursable Cost Manual (RCM) explain in detail how these allocations are to be made and reported on the CFR.

OSC audits completed and issued in 2018 identified over $2.9 million (or 20 percent of total disallowances) in expenses from other programs charged to the preschool programs. The costs claimed from other programs include both payroll-related expenses and OTPS expenses:

- **Allocation of Payroll Expenses –** The RCM requires salaries of employees who perform tasks for more than one program to be allocated among all programs for which they work. Furthermore, entities must maintain appropriate documentation reflecting the hours used in this allocation. Twelve of the 18 audits identified almost $1.9 million in payroll costs from other programs charged to the preschool programs, which is higher than amounts reported in prior years.
- **OTPS Expenses –** SED guidelines require that any expenditure that cannot be charged directly to a specific program be allocated across all programs and/or entities that benefit from the expenditure (e.g., general maintenance and overhead expenses). The RCM requires providers to maintain documentation of the methodologies used to allocate costs to the various programs which they operate. Similar to prior years, over half of the audits completed and issued in 2018 (10 out of 18) identified problems related to the allocation of OTPS costs and/or the inappropriate claiming of expenses from other programs. The dollar amount of these audit findings totaled about $1.1 million.

Personal Service-Related Findings – In addition to the allocation of payroll expenses from other programs previously noted, OSC audits completed and issued in 2018 identified about $3.3 million of unsupported or ineligible payroll-related expenses:

- **Unsupported or Ineligible Payroll Expenses –** SED requires providers to base employee compensation on approved and documented payrolls, which are supported by employee time and attendance records for all employees. Also, Section 200.9 of the Regulations of the Commissioner of Education states that providers shall maintain adequate records to document direct and/or indirect service hours provided, as well as time spent on all other activities related to each student served. Fifteen of the 18 audits (or 83 percent) found issues with the maintenance of payroll and time distribution documentation as required by the RCM, an increase compared to 2017 (39 percent). However, the dollar amount of the audit findings remained about the same, a little over $2.2 million.
- **Unsupported Bonuses –** SED requires that salary bonuses be based on merit and supported by performance evaluations to be eligible for reimbursement. The number of bonus-related problems reported decreased in 2018. Four of the 18 audits found evidence of claimed bonuses that were not in compliance with the RCM, with the dollar amount of the findings decreasing from about $1.1 million in 2017 to about $700,000 in 2018.

Findings Related to Other-Than-Personal-Services (OTPS) – According to the RCM, costs reported on the CFR are considered for reimbursement if they are reasonable, necessary, directly related to the special education program and properly documented. In addition, expenses of a personal nature are not reimbursable. OSC audits completed and issued in 2018 identified almost $8.5 million in unsupported or ineligible OTPS-related expenses, a significant increase from the $3 million identified in 2017. As noted below and in Appendix A of this report, many of the recommended disallowances are related to parent company charges and other administrative costs of some of the larger providers.

- **Unsupported/Ineligible Costs –** In nearly all of the audited programs (17 out of 18), there were findings of ineligible expenses, which were either not program-related or not supported by adequate documentation. The audit findings increased in dollar value from about $1.5 million in 2017 to almost $3.5 million reported this year. This includes over $2.1 million in costs claimed for parent company charges (four audits) that were either unsupported, ineligible, or not properly allocated to the SED special education programs.
- **Errors in Account Methodologies Used for Depreciation, Amortization and Accruals –** SED guidelines permit reimbursement of the depreciation of capital assets and the amortization of financing costs over the useful life of the assets or financing. Six out of 18 audits found inappropriate expensing of such costs, with a significant increase in the dollar amount of the audit findings from about $33,000 in 2017 to almost $825,000 in 2018.
- **Penalties, Interest, Fines and Late Fees –** The RCM expressly states that fines, penalties, late fees, and certain forms of interest are not reimbursable. The RCM further states that costs resulting from violations of, or failure by, the entity to comply with federal, State, and/or local laws and regulations are not reimbursable. In 2018, seven of the 18 audits noted recommended disallowances for non-reimbursable penalties, interest, fines and late fees, with a significant increase in the dollar amount of the audit findings from about $35,000 in 2017 to almost $440,000 in 2018.
- **Consultant and Professional Services –** The RCM provides extensive guidance on the use of consultants and other professionals, the proper claiming of costs for their services and related supporting documentation requirements. The RCM requires that the selection of these services must be done a minimum of every five years through a competitive bid process. In addition, the services cannot be used for services that could have been performed by a properly certified school officer or an employee who possesses the necessary technical skills. Over half of the audits (10 out of 18) recommended disallowances for consultant and professional services. The 2018 audits found about the same number of problems reported in 2017, but a decrease in the dollar amount of the audit findings from about $750,000 to a little over $230,000 in 2018.

- **Vehicle-Related Expenses –** SED allows for the reimbursement of vehicle costs as long as vehicle usage is program-related and documented in logs, which include dates, times, purposes, destinations, mileage and names of persons using the vehicles. Three out of 18 of the audits identified recommended disallowances of vehicle-related expenses, which were inadequately documented or otherwise ineligible for reimbursement. Similar to patterns in other cost categories, there was an increase in the dollar amount of the audit findings from about $101,000 in 2017 to over $160,000 in 2018.
- **Less-Than-Arm's-Length (LTAL) Transactions –** SED requires special education providers to disclose all less-than-arm's-length (LTAL) transactions in their CFRs and in the notes to their audited financial statements. In brief, a LTAL relationship exists when there are related parties and one party can control or significantly influence the business decisions of another party due to the nature of their personal relationships (e.g., spouses who conduct business with each other). Disclosure of such relationships is necessary to help ensure the propriety of costs for reimbursement purposes. Although only one of the 18 audits identified LTAL transactions which were not disclosed as required, four audits identified problems with reported costs related to LTAL business transactions, totaling almost $500,000.

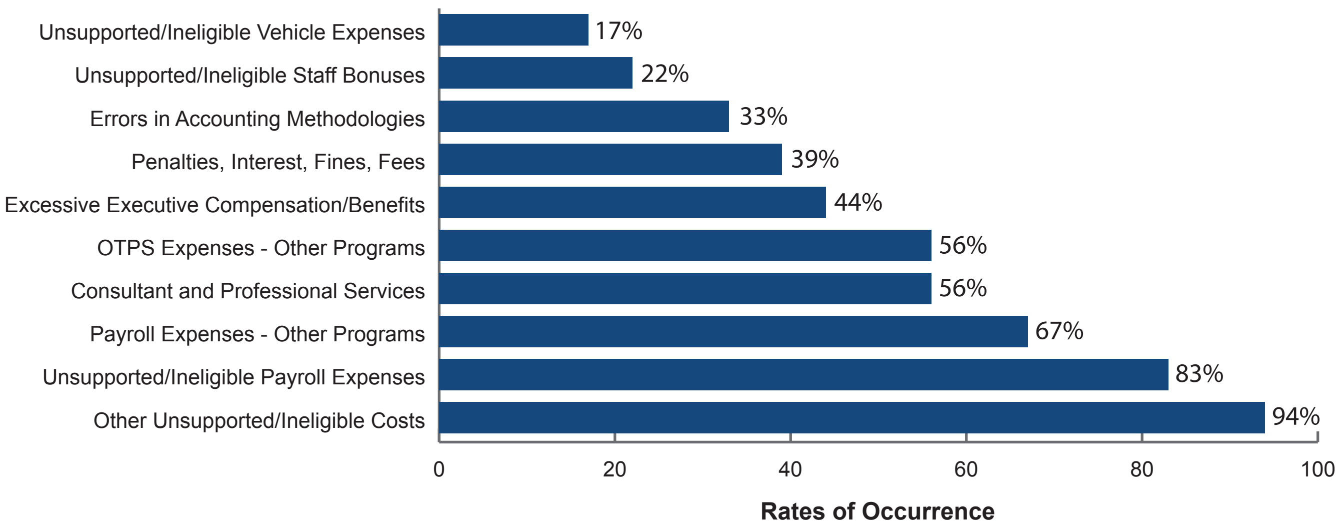
Lack of Due Diligence by Certified Public Accountants – As part of the CFR submission process, each provider is required to have an independent certified public accountant (CPA) express an opinion on its financial statements and certify that its CFR is prepared in accordance with SED guidelines. The purpose of the certification is to ensure that the CFR data is reported consistently and can be relied upon for the rate-setting process. OSC audits completed in 2018 continue to find numerous errors in costs reported in CFRs that can be attributed to the lack of due diligence by CPAs hired by special education providers. Examples include: instances of errors in accounting methodologies used for depreciation, amortization, and accruals; errors related to LTAL transactions; and errors in allocation methodologies. Therefore, OSC will continue to closely monitor the role of CPAs in the CFR submission process.

Management and Administrative Services Costs – The CFR Manual and the RCM provide specific guidance regarding the distinction between agency administration costs and management and administrative service costs, as well as how these costs are reported on the CFR. The CFR Manual states that when a CFR agency provides management services to another entity as a separate business activity through an ongoing contract, the expenses related to these services are not considered a part of the agency administration of the CFR agency providing the services. Thus, these expenses should not be reported under agency administration, but rather under "Other Programs."

In addition to the almost $14.8 million in recommended disallowances noted above, OSC audits questioned almost $8 million in agency administrative costs charged to SED special education programs via an affiliated organization for providing management and administrative services. The audits recommend that SED work with the special education providers to formulate a fair and reasonable allocation of these costs to the respective special education programs. Details related to these questioned costs are noted in the related audit synopses in Appendix A of this report.

The following graph includes some of the more common findings and their corresponding rates of occurrence, as identified in the 2018 reports.

Patterns of Inappropriate Claimed Expenses for Special Education Services in New York State 2018 Audit Findings



Impact of Audits: Agency Responses and Actions Taken

State Education Department

SED has reviewed OSC's recommended disallowances, made adjustments to reimbursable costs, recalculated tuition rates as appropriate and recovered any overpayments resulting from such recalculations. SED continues to take actions to strengthen the fiscal oversight and accountability of preschool special education providers, including the following:

Special Education Financial Advisory Workgroup – The New York State Board of Regents created a Special Education Financial Advisory Workgroup to allow all interested stakeholders to provide input on the current tuition rate-setting structure for special education services and programs, and to discuss recommendations to maximize the efficient and effective use of State and local resources. SED reports that in September, October and November of 2017, a subcommittee of this workgroup met to discuss changes to the Special Class Integrated Setting (SCIS) rate-setting methodology, which is an alternative methodology required pursuant to Chapter 59 of the Laws of 2017. SED officials state that their objectives for developing a new SCIS methodology are to:

- Expand and preserve opportunities for preschool students with disabilities to be enrolled in early childhood programs with their typically developing peers;
- Promote early childhood program inclusion principles — bring the support services to the child rather than moving the child to the services;
- Remove incentives to over-enroll preschool students with disabilities in order to remain fiscally viable;
- Maintain program quality standards among all providers; and
- Provide transparency and predictability in funding at levels adequate to achieve desired program objectives.

Required CFR Training – Beginning with the submission of CFRs for the 2012-13 school year, SED encouraged all individuals signing the CFR certification statements (namely Executive Directors and CPAs) to complete training in CFR reporting requirements. This training is required of preschool providers upon approval and reapproval, and SED is tracking and verifying the individuals who have completed the required training.

Revised SED Regulations – In 2016, SED amended the Regulations of the Commissioner relating to preschool providers to clarify, consistent with State law, the locations where SCIS may be provided and to ensure preschool students enrolled in special classes receive the related services in their Individualized Education Program (a written statement of the educational program designed to meet a child's individual needs) in conjunction with their special class programs. In addition, the Regulations enhanced program standards for the instruction of preschool students with disabilities relating to: instruction toward the Prekindergarten Foundation for the Common Core; literacy instruction; progress monitoring; engagement of parents; makeup of missed services; and use of positive behavioral supports.

Section 200.18 of the Regulations of the Commissioner was amended to make clear that SED shall review final audit reports, which shall be used to establish tuition rates based on audit to the extent the Commissioner determines that the audit findings and recommended disallowances contained therein are warranted and consistent with applicable laws, regulations and guidelines. Further, after consideration of the final audit by the Commissioner, tuition rates based on audit shall then be established by the Commissioner and become final after certification by the Director of the Budget.

Conclusion

OSC audits of special education providers continue to identify millions of dollars annually for expenses claimed for other programs, reimbursements for unsupported expenditures, and increased costs associated with less-than-arm's-length transactions. Accordingly, this office will continue to audit special education providers and emphasize the importance of critical internal controls and responsible external oversight. OSC encourages State policy makers to uphold the State's long-standing commitment to special education programs and to ensure that they are financially sustainable for future generations.

Appendix A
Special Education Program Audits Completed and Issued in 2018

Provider/Audit Name	County	Audited Program Costs Reported on CFR	Number of Years in Scope	Total Disallowance
ADAPT Community Network	New York	$53,184,149	3	$5,418,457
Alternatives For Children	Suffolk	$25,876,323	3	$253,494
Bank Street College of Education	New York	$2,255,115	1	$585,047
Developmental Disabilities Institute, Inc.	Suffolk	$39,782,620	3	$138,718
Head Start of Rockland, Inc.	Rockland	$869,436	1	$7,958
Infant and Child Learning Center - The Research Foundation for the State University of New York	Kings	$19,141,605	3	$1,727,960
Interdisciplinary Center for Child Development	Queens	$30,153,569	3	$453,670
Kinderwise Learning Associates, LLC	Westchester	$1,652,063	1	$1,946
Leake and Watts Services, Inc. (Rising Ground)	Westchester	$6,060,844	1	$228,071
Manual Therapy Center, Inc.	New York	$15,557,407	3	$818,286
New York Therapy Placement Services, Inc.	Suffolk	$23,527,566	3	$841,392
NYSARC, Inc. - NYC Chapter (Preschool Program)	New York	$61,828,208	3	$1,311,070
NYSARC, Inc. - NYC Chapter (School-Age Program)	New York	$37,987,053	3	$513,279
Pinnacle Organization	Oswego	$2,845,094	3	$103,220
Programs for Little Learners	Westchester	$2,303,154	3	$66,597
School for Language and Communication Development	Nassau	$8,125,915	3	$38,741
The Network for Children's Speech, Occupational and Physical Therapy, LLC	Onondaga	$2,515,084	3	$707,677
Volunteers of America - Greater New York, Inc.	New York	$38,117,311	3	$1,557,827
Total		**$371,782,516**		**$14,773,410**

ADAPT Community Network (ADAPT) (2017-S-86) (formerly known as United Cerebral Palsy of New York City, Inc.) is a New York City-based not-for-profit organization that provides, among other programs, preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, ADAPT reported $53,184,149 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $5,418,457 in costs that did not comply with SED's requirements for reimbursement, including:

- $3,342,387 in non-allowable occupancy costs related to a leased building that ADAPT did not occupy during the audit period;
- $670,715 in unsupported depreciation costs;
- $437,052 in interest costs;
- $207,703 in compensation costs related to other ADAPT programs; and
- $192,428 in OTPS expenses that were either insufficiently documented, not related to the preschool programs or ineligible for reimbursement.

Alternatives For Children (Alternatives) (2017-S-44) is a not-for-profit organization located in Suffolk County that provides a range of educational services, including preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, Alternatives reported $25,876,323 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $253,494 in costs that did not comply with SED's requirements for reimbursement, including:

- $122,966 in salary costs from other programs that were incorrectly allocated to the preschool program;
- $37,446 for equipment that was incorrectly expensed rather than capitalized over its useful life; and
- $35,956 in rental expenses for a location that was no longer being used.

Bank Street College of Education (Bank Street) (2017-S-5) is a New York City-based not-for-profit organization that provides, among other programs, preschool special education services to children with disabilities who are between the ages of three and five years. For the fiscal year ended June 30, 2014, Bank Street reported $2,255,115 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $585,047 in costs that did not comply with SED's requirements for reimbursement, including:

- $252,276 in employee compensation that was not properly supported by time and attendance records; and
- $246,707 in parent agency administrative overhead costs that were not adequately supported.

Developmental Disabilities Institute, Inc. (DDI) (2018-S-3) is a not-for-profit organization located in Suffolk County that provides a range of educational and social services, including preschool special education services to children with disabilities who are between the ages of three and five years. For the three years ended December 31, 2015, DDI reported $39,782,620 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $138,718 in costs that did not comply with SED's requirements for reimbursement, including:

- $69,350 in vehicle expenses that did not have the required documentation;
- $34,302 in excess staffing expenses; and
- $18,733 in executive compensation that was above the median compensation levels.

Head Start of Rockland, Inc. (Head Start) (2018-S-25) is a not-for-profit organization located in Rockland County that provides special education services to children with disabilities who are between the ages of three and five years. For the fiscal year ended June 30, 2015, Head Start reported $869,436 in reimbursable costs for its preschool special education programs. The OSC audit recommended disallowances of $7,958 in costs that did not comply with SED's requirements for reimbursement, including $6,841 in personal service costs inappropriately allocated to the programs and $1,117 in OTPS costs, such as staff travel and food, that were not eligible for reimbursement.

Infant and Child Learning Center – The Research Foundation for the State University of New York (ICLC) (2017-S-22) is located in Brooklyn. ICLC is a component of the Research Foundation for the State University of New York—a not-for-profit education corporation serving the State University of New York. ICLC provides a range of educational services, including preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, ICLC reported $19,141,605 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $1,727,960 in costs that did not comply with SED's requirements for reimbursement, including:

- $1,519,114 for insufficiently documented parent agency administration allocation costs;
- $97,741 for insufficiently documented and/or unnecessary rent expenses; and
- $95,678 in personal service costs including ineligible fringe benefits and bonuses, and excess staffing expenses.

Interdisciplinary Center for Child Development (ICCD) (2017-S-31) is a New York City-based for-profit organization that provides a range of special education services to children with disabilities from birth to five years of age. For the three fiscal years ended June 30, 2015, ICCD reported $30,153,569 in reimbursable costs for its preschool special education programs. The OSC audit recommended disallowances of $453,670 in costs that did not comply with SED’s requirements for reimbursement, including:

- $274,830 in a LTAL lease transaction where the reimbursed costs exceeded the owner’s actual cost; and
- $176,793 in compensation related to excess staffing for teacher aides/assistants.

Kinderwise Learning Associates, LLC (Kinderwise) (2018-S-21) is a for-profit organization located in Westchester County that provides, among other programs, preschool special education services to children with disabilities who are between the ages of three and five. For the fiscal year ended June 30, 2015, Kinderwise reported $1,652,063 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $1,946 in costs that did not comply with SED’s requirements for reimbursement, including $1,080 in costs related to Kinderwise’s Early Intervention Program.

Leake and Watts (2017-S-73) (which changed its name to Rising Ground in 2018) is an SED-approved not-for-profit organization located in Westchester County that provides special education services to children with disabilities who are between the ages of three and five years. For the fiscal year ended June 30, 2015, Leake and Watts reported $6,060,844 in reimbursable costs for its preschool special education programs. The OSC audit recommended disallowances of $228,071 in costs that did not comply with SED’s requirements for reimbursement including:

- $158,044 in salaries and fringe benefits for staff working in other programs; and
- $65,318 in OTPS costs that were either insufficiently documented or ineligible for reimbursement.

Manual Therapy Center, Inc. (Manual Therapy) (2016-S-38) is a New York City-based for-profit organization that provides special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2014, Manual Therapy reported $15,557,407 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $818,286 in costs that did not comply with SED’s requirements for reimbursement, including:

- $179,312 in compensation costs that were not supported by time and attendance records;

- $150,079 in personal service and OTPS expenses from another program;
- $144,676 in a LTAL lease transaction where the reimbursed costs exceeded the owner's actual cost;
- $130,457 in excess compensation paid to two employees; and
- $111,425 in unsupported OTPS expenses such as advertising, janitorial services, office supplies, and professional fees.

New York Therapy Placement Services, Inc. (NYTPS) (2016-S-87) is a for-profit organization located in Suffolk County that provides, among other programs, preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2014, NYTPS reported $23,527,566 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $841,392 in costs that did not comply with SED's requirements for reimbursement, including:

- $420,281 in employee salaries that lacked documentation to support the amount allocated to the preschool special education program;
- $308,761 in agency administration costs that were inappropriately allocated and overcharged to the preschool special education program; and
- $62,855 in executive compensation that exceeded median salaries for comparable administrative job titles of public school districts in the region.

NYSARC, Inc. – NYC Chapter (NYSARC) (2017-S-47) (Preschool Program), also known as AHRC NYC, is a New York City-based not-for-profit organization that provides, among other programs, preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, NYSARC reported $61,828,208 in reimbursable costs for its preschool special education programs. The OSC audit recommended disallowances of $1,311,070 in costs that did not comply with SED's requirements for reimbursement, including:

- $519,956 in ineligible rent expenses;
- $402,520 in employee bonuses that were not based on merit;
- $132,026 in costs applicable to the 1:1 Aides program that were incorrectly allocated to the SED cost-based program; and
- $121,570 in non-mandated fringe benefits' contributions that were not proportionately similar to the amounts received by groups of NYSARC employees.

The OSC audit also questioned $4,938,101 in agency administration costs that NYSARC charged to the SED cost-based preschool programs. Because NYSARC did not maintain records of actual costs associated with providing management and administrative services to its affiliates, auditors could not determine how much of the $4,938,101 should be allocated to the preschool programs. Therefore, the auditors recommended that SED and NYSARC officials work together to formulate a fair and reasonable allocation of these costs to NYSARC's preschool programs.

NYSARC, Inc. – NYC Chapter (NYSARC) (2017-S-82) (School-Age Program) is a New York City-based not-for-profit organization that provides, among other programs, school-age special education services to children with disabilities who are between the ages of 5 and 21 years. For the three fiscal years ended June 30, 2015, NYSARC reported $37,987,053 in reimbursable costs for its school-age special education programs. The OSC audit recommended disallowances of $513,279 in costs that did not comply with SED's requirements for reimbursement, including:

- $266,339 in employee bonuses that were not based on merit;
- $82,634 in ineligible rent expenses; and
- $35,066 in excess executive compensation.

The OSC audit also questioned $3,022,083 in agency administration costs that NYSARC charged to the SED cost-based school-age programs. Because NYSARC did not maintain records of actual costs associated with providing management and administrative services to its affiliates, auditors could not determine how much of the $3,022,083 should be allocated to the school-age programs. Therefore, the auditors recommended that SED and NYSARC officials work together to formulate a fair and reasonable allocation of these costs to NYSARC's school-age programs.

Pinnacle Organization (Pinnacle) (2018-S-6) is a not-for-profit organization located in Oswego County that is authorized by SED to provide preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, Pinnacle reported $2,845,094 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $103,220 in costs that did not comply with SED's requirements for reimbursement, including:

- $58,667 in contracted personal service payments related to LTAL transactions;
- $35,770 in compensation for employee lunch breaks; and
- $3,550 in lease payments related to LTAL transactions.

Programs For Little Learners (PFLL) (2017-S-87) is a for-profit organization located in Westchester County that provides, among other programs, preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, PFLL reported $2,303,154 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $66,597 in costs that did not comply with SED's requirements for reimbursement including:

- $41,298 in non-reimbursable fringe benefit costs for health insurance for its three salaried employees; and
- $8,116 in OTPS expenses, including $7,687 in unsupported credit card expenses.

School for Language and Communication Development (SLCD) (2017-S-59) is a New York City-based not-for-profit organization located in Nassau County that provides preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, SLCD reported $8,125,915 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $38,741 in costs that did not comply with SED's requirements for reimbursement, including:

- $28,271 in pension benefits for administrative employees that exceeded the benefits available to direct care preschool employees; and
- $7,152 in costs for a teacher assistant that were incorrectly charged to the preschool programs.

The Network for Children's Speech, Occupational and Physical Therapy, LLC (CTN) (2017-S-79) is a for-profit organization located in Onondaga County that provides a range of services for individuals with developmental disabilities, including preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, CTN reported $2,515,084 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $707,677 in costs that did not comply with SED's requirements for reimbursement, including:

- $511,672 in excess personal service costs for Special Education Itinerant Teacher (SEIT) personnel who were paid based on actual services provided, whereas the reported CFR expenses were based on the number of SEIT sessions scheduled (only about 73 percent of the scheduled SEIT sessions actually took place);
- $93,445 in unsupported salary and fringe benefits for nine office employees; and

- $39,418 in OTPS costs, including $13,491 in related-party lease expenses that exceeded the owner's actual costs and $10,067 in shared costs that were over-allocated to the special education programs.

The OSC audit also determined CTN did not disclose, on its CFR as required, the related-party relationship with Vector Management Solutions, which employed the office staff working at CTN. The two entities consolidated their financial statements for the year ended June 30, 2015.

Volunteers of America – Greater New York, Inc. (VOA) (2017-S-32) is a not-for-profit organization that provides a range of education and social services programs, including preschool special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, VOA reported $38,177,311 in reimbursable costs for its special education programs. The OSC audit recommended disallowances of $1,557,827 in costs that did not comply with SED's requirements for reimbursement including:

- $541,775 in non-program compensation paid to 38 individuals who worked in other VOA programs;
- $340,663 in insufficiently documented parent agency administrative allocation costs;
- $257,536 in expenses from other VOA social service programs; and
- $144,148 in consultant costs that were insufficiently documented or not related to VOA's preschool programs.

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