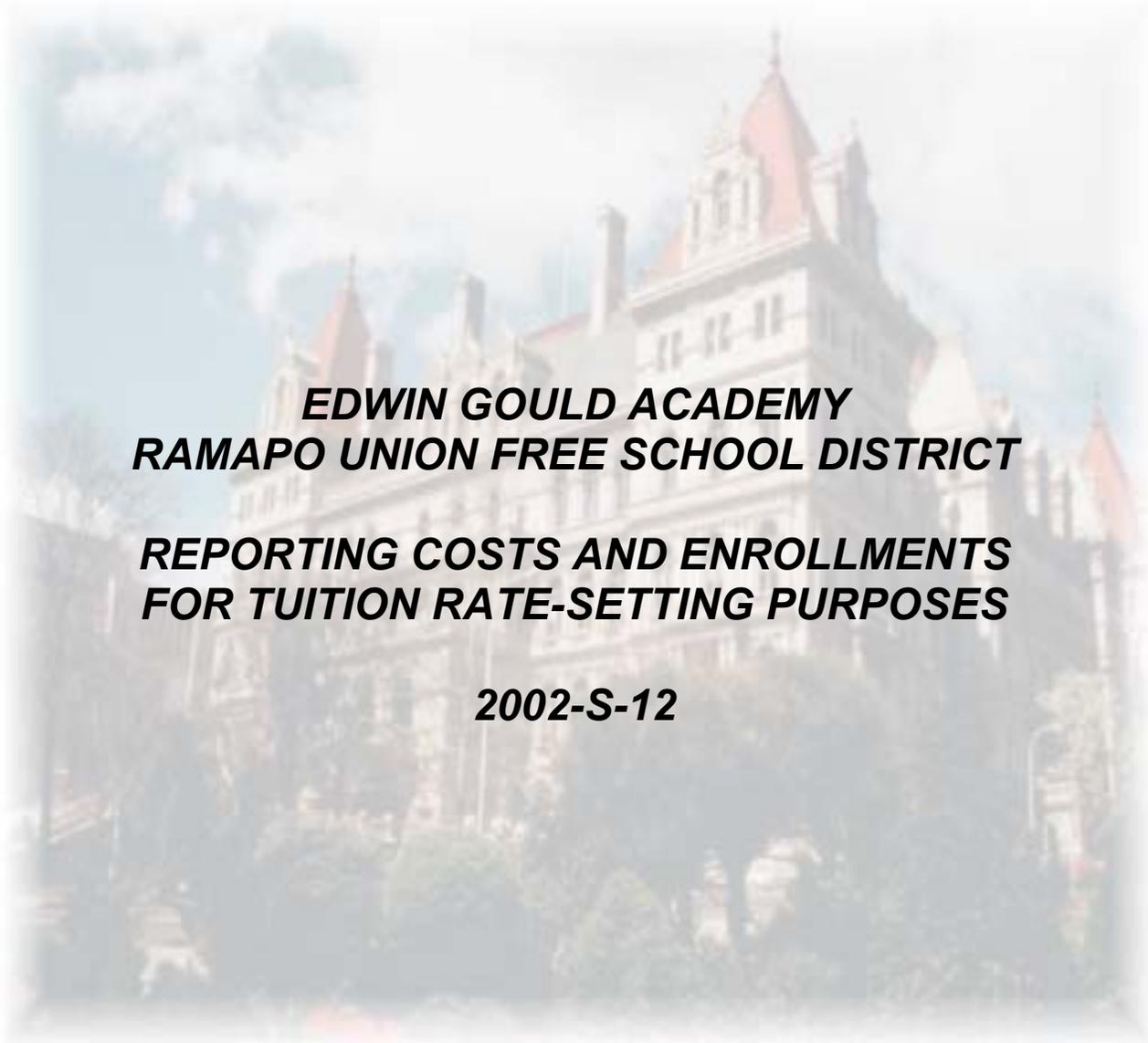


*A REPORT BY THE NEW YORK STATE  
OFFICE OF THE STATE COMPTROLLER*

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**Alan G. Hevesi  
COMPTROLLER**



***EDWIN GOULD ACADEMY  
RAMAPO UNION FREE SCHOOL DISTRICT  
REPORTING COSTS AND ENROLLMENTS  
FOR TUITION RATE-SETTING PURPOSES***

***2002-S-12***

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**DIVISION OF STATE SERVICES**

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**Alan G. Hevesi**  
**COMPTROLLER**

**Report 2002-S-12**

Mr. Thomas L. Webber  
Superintendent of Schools  
Ramapo Union Free School District  
875 Chestnut Ridge Road  
Chestnut Ridge, NY 10977-6221

Mr. Richard P. Mills  
Commissioner  
New York State Education Department  
State Education Building  
Albany, New York 12234

Dear Mr. Webber and Mr. Mills:

The following is our report addressing the policies and practices used by the Edwin Gould Academy-Ramapo Union Free School District to report program costs and enrollments to the State Education Department for tuition rate-setting purposes for the period July 1, 1999 through June 30, 2001.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article III, Section 33 of the General Municipal Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller*  
*Division of State Services*

April 14, 2003

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## **EXECUTIVE SUMMARY**

### **EDWIN GOULD ACADEMY-RAMAPO UNION FREE SCHOOL DISTRICT**

### **REPORTING COSTS AND ENROLLMENTS FOR TUITION RATE-SETTING PURPOSES**

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#### **SCOPE OF AUDIT**

The Edwin Gould Academy-Ramapo Union Free School District (District) is located in Chestnut Ridge, Rockland County. The District is one of 14 special act school districts in the State that were established by the Legislature to serve students with special needs, including those with behavioral and learning problems. The costs incurred by the District in serving these students may be reimbursed by the students' home school districts and the State on the basis of tuition reimbursement rates calculated by the State Education Department (Department). These costs are reimbursable if they comply with the Department's Reimbursable Costs Manual (Manual). For the two school years ended June 30, 2001, about \$12.7 million in costs were reported by the District. Students enrolled in the District are referred by New York City and State social services agencies.

Our audit addressed the following questions about the costs and enrollments reported by the District for the two school years ended June 30, 2001:

- Were these costs reasonable, necessary and consistent with the Manual?
- Did the District accurately report the student enrollments that were used by the Department in its calculation of tuition reimbursement rates?

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#### **AUDIT OBSERVATIONS AND CONCLUSIONS**

We disallowed \$221,726 of the costs reported by the District because the costs either were not eligible for reimbursement or were not adequately documented. We also determined that the District did not accurately calculate and report its full-time equivalent enrollments to the Department.

We examined a portion of the costs reported by the District for our two-year audit period. We determined that, according to the Manual, \$138,541 of these costs were ineligible for reimbursement. For example, we disallowed about \$32,621 because either the costs related to activities not recognized as ordinary and

necessary for the approved educational program (such as a trip to a major amusement park in New Jersey at a cost of \$11,372) or the costs are normally assumed by parents of students attending public schools (including \$21,249 for yearbooks purchased for students). We also disallowed \$19,833 that the District paid for food and beverages served during various meetings and school functions because the Manual indicated that they were not eligible costs. In addition, we disallowed, in accordance with the manual, \$29,588 in retainer fees for legal services because the retainer fees exceeded the amount that would have been paid if the services had been paid for as they were provided. (See pp. 6-9)

According to the Manual, costs will not be reimbursable if they are not adequately documented, and documentation for counseling services provided to students must specify both the names of the students receiving the services and the amount of time spent with each student. However, the documentation maintained by the District for such services did not include this information. Rather, the District's documentation indicated only the dates the services were provided and the number of hours provided each day. We therefore disallowed \$79,933 spent by the District for these services, and recommended that improvements be made in the District's documentation practices. (See pp. 9-10)

State regulations specify the method to be used by the District to calculate the full-time equivalent enrollment that is reported to the Department and used to determine the District's tuition reimbursement rates. We found that this method was not always used by the District. As a result, the enrollment figures reported to the Department during our audit period were generally overstated. (See pp. 13-14)

We also found that improvements are needed in certain of the District's internal controls, particularly its controls over equipment inventory. (See pp. 17-18)

Our report contains detailed recommendations to both the Department and the District to improve the reporting of cost and enrollment data, and to improve District operating practices.

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## ***COMMENTS OF DISTRICTS AND DEPARTMENT OFFICIALS***

**D**istrict officials responded that they welcomed our audit recommendations, and they have commenced steps to implement changes where inappropriate procedures had been used. Officials acknowledged that some operational weaknesses existed, but believe that the fiscal and programmatic integrity of the District has not been compromised. Officials also stated that most of our report's disallowances represented legitimate expenses within the context of the District's unified residential school. They believe that many of the costs in question were reasonable, necessary and consistent with the Manual. Department officials agree with the four recommendations we addressed to them. Most notably, the Department agrees with our recommendation to consider the disallowances identified in this report and take appropriate action.

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Major Contributors to This Report

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Comments of State Education Department Officials

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# INTRODUCTION

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## Background

The Edwin Gould Academy (Academy)-Ramapo Union Free School District (District) is located in Chestnut Ridge, Rockland County. The State Legislature established the District through a special act. The District is one of 14 special act school districts in the State that serve children with special needs, including those with behavioral and learning problems. The District serves the educational needs of the residents of the Academy, which is affiliated with the Edwin Gould Foundation, a national philanthropic organization. Students are referred to the District by New York City or State social service agencies. There were 175 students enrolled in the District during the 2001-2002 school year. The following table summarizes the District's reported expenditures for the period of our audit.

Fiscal Year	Personal Service	Other Than Personal Service	Total
1999-2000	\$3,621,301	\$2,939,229	\$6,560,530
2000-2001	\$3,341,789	\$2,784,668	\$6,126,457
Total	\$6,963,090	\$5,723,897	\$12,686,987

For each student placed in the District, the New York City Department of Education pays tuition based on rates established by the New York State Education Department (Department). The rates, which must also be approved by the New York State Division of the Budget, allow the District to recover all costs considered reimbursable under the terms of the Department's Reimbursable Costs Manual (Manual). The tuition rates vary among special act schools, as they are based on the allowable costs incurred by each school in providing services that meet the educational needs of their students. In addition, the tuition rates for the regular school year vary from the rates for summer sessions. The State (through the Department) reimburses New York City for about 50 percent of the amount paid to the District.

Section 305 of the State Education Law (Law) authorizes the Department to oversee and examine the operations of all institutions (including the District) that are subject to the

provisions of the Law. The District's financial statements must be audited annually by a certified public accountant. The purpose of these audits is to determine whether the financial statements comply with generally accepted accounting principles. The audits are not intended to determine whether the District's costs are reasonable, necessary and consistent with the Manual. The audited financial statements must be submitted to the Department along with other reports prepared by the District summarizing its student enrollment and its educational costs for the year. Pursuant to the Law, the Department reviews these reports to determine the tuition rates to be charged to the students' home districts.

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### ***Audit Scope, Objectives and Methodology***

**W**e audited the educational program costs and student enrollment data reported by the District to the Department for the period July 1, 1999 through June 30, 2001, which encompassed two school years. The objectives of our financial compliance audit were to determine whether the reported costs were reasonable, necessary and consistent with the Manual, and whether the reported enrollments were accurate. To accomplish these objectives, we reviewed District financial records and supporting documentation, and interviewed District management, District staff, and Department personnel. In determining whether the reported costs complied with the Manual, we selected a judgmental sample of the expenditures reported by the District for each of the two school years covered by our audit. In selecting expenditures for this sample, we took into account the materiality and relative risk of individual transactions. Our audit addressed the educational costs considered by the Department in its establishment of tuition rates; it did not address the costs associated with the Academy's residential program, because these costs are not reimbursed through the tuition rates established for the educational program.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the District that are included within our audit scope. These standards also require that we understand the District's internal control structure and compliance with those laws, rules and regulations that are relevant to the District's operations included in our audit scope. An audit includes

examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records, and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability of needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an “exception basis.” This audit report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

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### ***Internal Control and Compliance Summary***

Internal controls are the integrated activities, plans, attitudes, policies, and efforts of the people of the organization working together to provide reasonable assurances that an organization will fulfill its mission. They encompass a comprehensive system that helps an organization manage risk and enables its programs and administrative activities to operate efficiently and effectively. An effective internal control system typically sets standards in five critical areas: control environment, information and communication, control activities, risk assessment, and monitoring. Our evaluation of the District’s internal controls identified weaknesses that require prompt and substantive management attention. We provide details of these matters throughout this report.

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### ***Response of Department and District Officials to Audit***

We provided draft copies this report to Department and District officials for their review and formal comment. We considered the District’s and the Department’s comments in preparing this report and have included them as Appendices B and D, respectively. Our rejoinders to the District’s response are presented in Appendix C, State Comptroller’s Notes.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Education shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein to the Department, and where recommendations were not implemented, the reasons therefor. We also request officials of the District to provide comments within 90 days advising what steps were taken to implement the recommendations contained herein to the District, and where recommendations were not implemented, the reasons therefor.

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## DISALLOWED COSTS AND COMPLIANCE DEFICIENCIES

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The Manual states that costs will be reimbursed if they are reasonable, necessary, sufficiently documented, and directly related to the educational program. The Manual prescribes what costs are reimbursable and the related record keeping requirements (e.g., vendor invoices, receipts or time records). The Manual also states that costs will not be considered to be reimbursable upon field audit (by the Commissioner of Education, the State Comptroller, or other authorized agencies) without appropriate written documentation of such costs. Section 200.9 (d) of the Commissioner of Education's Regulations requires approved programs to retain all pertinent accounting, cost allocation and student enrollment/attendance records for seven years following the end of the reporting year. Further, Section 200.9 (f) of the Regulations requires that adjustments be made to any reported costs that cannot be substantiated, upon field audit, by adequate written documentation.

Payments for staff salaries and fringe benefits are classified as personal service costs. To determine whether the District's reported personal service costs (excluding fringe benefits) were in accordance with Manual guidelines, we reviewed a judgmental sample of two payrolls (one in each school year) during our audit period. We determined that these two payrolls were in accordance with Manual guidelines.

Other-than-personal-service (OTPS) costs are those incurred to purchase goods and services. OTPS costs exclude staff salaries, wages and fringe benefits. Types of OTPS expenditures include equipment purchases, consultant services, repairs, and other operating expenses. In addition, if the educational program shares costs with other non-educational programs (such as the Academy's residential program), the portion of these shared costs that is allocated to the educational program is considered an OTPS cost.

The OTPS costs reported by the District for the two school years covered by our audit totaled \$2.94 million and \$2.78

million, respectively. To determine whether these costs were allowable in accordance with the Manual, we reviewed the financial records relating to a judgmental sample of OTPS expenditures for each of the two years. For fiscal year 1999-2000 we sampled OTPS transactions totaling \$959,046 and for fiscal year 2000-2001 we sampled OTPS transactions totaling \$840,427. We selected items for review based on the following criteria: the item's cost (higher valued items selected over lower cost items); reasonableness/educational relationship of expense; and auditor's judgment. We identified a total of \$221,726 in reported costs that were not allowable, either because the costs were not eligible for reimbursement under the terms of the Manual or were not supported with adequate documentation. The following table summarizes the disallowed costs by reason and year.

Reason for Disallowance	Fiscal 1999-2000	Fiscal 2000-2001	Total
Not Eligible	\$60,788	\$77,753	\$138,541
Not Adequately Documented	\$32,977	\$50,208	\$83,185
Total	\$93,765	\$127,961	\$221,726

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***Costs Not Eligible According to the Manual***

We determined that, according to the Manual, the following \$138,541 in OTPS costs reported by the District were not eligible for reimbursement for the following reasons:

- The District's educational program shared certain costs with non-educational programs operated by the Academy. These shared costs related to the salaries and fringe benefits of staff who worked on both educational and non-educational programs. According to the Manual, such costs should be allocated among educational and non-educational programs on the basis of the actual amount of time spent by the staff on each type of program. However, we found that the overtime and fringe benefit costs allocated to the educational program did not correspond with the actual amount of time spent by the staff on educational activities. Based on the available records, we determined that the costs

allocated to the educational program exceeded the amount that should have been allocated by a total of \$11,175, and as a result, this excess amount was not eligible for reimbursement.

- The Manual states that retainer fees for legal services are not reimbursable unless the fees represent payment for actual documented reimbursable services rendered. During the audit period, the District paid its legal counsel \$37,534 (generally in increments of \$7,500 and \$3,750). However, we determined that supporting documentation for actual services rendered amounted to only \$7,946. Therefore, \$29,588 (or \$37,534 - \$7,946) in payments to the district's legal counsel was ineligible for reimbursement.
- The Manual states that expenses normally assumed by parents or legal guardians of students attending public day schools are not reimbursable. Accordingly, we disallowed \$21,249 that was paid by the District to purchase yearbooks for its students.
- The Manual states that costs for food, beverages, entertainment and other related costs for meetings, including Board meetings, are not reimbursable. Further, the Manual states that costs for food provided to staff are not eligible for reimbursement. Accordingly, we disallowed \$19,833 that was paid by the District for food and beverages served during various meetings, school functions, and staff training sessions.
- We disallowed \$11,372 that was paid by the District for a visit to a major amusement park in New Jersey. The cost included admission tickets for 250 students and staff as well as refreshments at the park. The Manual states that the costs of reasonable field trips are allowable. However, this field trip is not allowable because it is not ordinary and necessary for the operation of the approved educational program. The field trip had no formal relationship to the educational program. Moreover, the Manual states that ordinary living expenses, such as the cost of class trips or other expenses that are normally assumed by parents of students attending public day schools, are not reimbursable.

- We disallowed \$10,146 that was spent by the District for equipment rentals, disk jockeys and trips associated with student entertainment and parties. Such activities are not recognized as ordinary and necessary for the operation of the approved educational program.
- We also disallowed \$9,330 that was spent by the District for clothing and sneakers (\$5,671) and student prom expenses including limousine services (\$3,659), because the Manual states that ordinary expenses normally assumed by parents or legal guardians of students attending public day schools are not eligible for reimbursement.
- Section 4002 of the New York State Education Law states that children residing in child care institutions are entitled to a free and appropriate education if they have not yet graduated from high school. However, the District reported \$5,897 in college tuition expenses for resident students. Since the students had graduated from high school, these costs were not eligible for reimbursement.
- The Manual states that costs of education or training necessary for an employee to meet minimum qualifications for the position for which he/she was hired are not reimbursable. The District claimed \$4,400 in tuition expenses for courses taken by a staff member to meet the minimum qualifications for her position.
- We disallowed \$3,830 for malpractice insurance expenses that was paid directly to a psychiatric consultant because the payment was not prescribed and authorized by a written contract between the consultant and the District.
- We disallowed \$1,496 that was paid for a computer for a former resident who was attending college. (Costs associated with college expenses are not reimbursable.) Furthermore, the computer was not listed on the District's equipment inventory.
- We also disallowed \$10,225 of expenses that were not eligible for reimbursement because they were not ordinary and necessary for the District's educational program. These expenses included personal hair care

supplies (\$4,547), swimming pool supplies (\$4,188), and other ineligible miscellaneous expenses (\$1,490).

(In their response to our draft audit report, District officials indicated that many of the costs in question were reasonable, necessary and consistent with the Manual and should not be disallowed.)

Auditor's Comments: The Manual clearly indicates that the costs in question are not eligible for reimbursement.

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### ***Inadequately Documented Costs***

The Manual requires that all purchases of goods and services be supported by appropriate documentation. In the case of professional counseling services (such as those provided by a psychiatrist), the Manual requires a written contract that includes the nature of the services to be provided and the rate of compensation for such services. In addition, the supporting documentation for claims for counseling services must include the names of the students receiving the services, the date(s) of the services, and the amount of time the consultant spends with each student. However, the District did not have a written contract with its psychiatric consultant. Therefore, key matters, such as compensation rates and the correct method for claiming payment for services, were not prescribed in writing.

During the audit period, the psychiatric consultant routinely submitted bi-weekly invoices to the District for \$3,000 - at a rate of \$75 per hour for 40 hours of work. In total, the consultant submitted claims of about \$126,000 over the two-year period for services provided on 314 separate days. However, the invoices did not indicate the names of the students who received the services nor the amount of time the consultant spent with each student. Rather, the invoices noted only the date of the services and the total hours worked on that day. After we brought this matter to the attention of District officials, they provided us with a list from the consultant that included the names of the students who were purportedly served. We reviewed the consultant's listing and other available records and determined that some of the claims in question were adequately supported. However, we also determined that some of the students on the consultant's list were not enrolled at the District at the time the consultant claimed (and the District paid for) the services. Moreover, there was no support provided for services billed on

207 (of the 314) days, corresponding to payments totaling \$79,933. Because the Manual states that such consultant costs are not eligible for reimbursement without adequate supporting documentation, the unsupported payments of \$79,933 are not reimbursable.

We also identified checks totaling \$3,252 that were issued to employees without supporting documentation, such as receipts or vendor invoices, to substantiate the reasons for the payments. In the absence of such documentation, these costs are not eligible for reimbursement.

During the course of our audit fieldwork, District officials informed us that they would implement changes in their procedures to improve their documentation practices based on our conclusions and recommendations.

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### ***Purchase Contracts Not Advertised***

The Manual requires the District to use competitive procurement practices as prescribed by law. Specifically, the General Municipal Law requires all public works contracts of more than \$20,000 and all purchase contracts of more than \$10,000 to be awarded to the lowest responsible bidder. To help generate sufficient vendor competition, an advertisement for bids should be published in local newspapers or other appropriate periodicals. However, the District awarded three contracts totaling almost \$77,000 (a cleaning contract for \$13,090, a maintenance contract for \$34,500, and a painting contract for \$29,360) without formal advertising. District officials acknowledged that they should have advertised the bidding of these contracts to help attract potential vendors. Because these contracts represented reasonable and ordinary costs and the District obtained vendor competition, we do not recommend that any of the costs be disallowed.

## **Recommendations**

### To the Department:

1. Formally evaluate the audit disallowances identified in this report and take appropriate action.

(Department officials agree with recommendation number 1.)

2. Periodically perform field site visits to ensure the District is complying with the Manual, and has implemented the recommendations contained in our report.

(Department officials agree with recommendation number 2, and indicate that they will periodically visit the District as resources permit.)

### To the District:

3. Only report costs to the Department that are allowable pursuant to the Manual.

(District officials responded that they will ensure that all future costs are allowable pursuant to the Manual.)

4. Review the procedures for allocating costs between educational and residential programs, and calculate the allocations using appropriate methodologies that are supported by adequate documentation.

(District officials responded that they will review all cost allocations annually and ensure that the methodologies used are appropriate and supported by adequate documentation.)

## **Recommendations (Cont'd)**

5. Ensure that all bills for goods and services are supported by adequate documentation prior to payment. With regard to claims from the psychiatric consultant, ensure that such claims include all data prescribed by the Manual, including the names of the students served and the duration of the services.

(District officials responded that they will ensure that all bills for goods and services, including those from the psychiatric consultant, are supported by adequate documentation prior to payment.)

6. Maintain adequate supporting documentation, including vendor invoices and receipts, for all expenses.

(District officials responded that they will maintain supporting documentation, including vendor invoices and receipts, for all expenses.)

7. Enter into a written contract with the psychiatric consultant for counseling services. Ensure that the contract addresses all of the matters prescribed by the Manual.

(District officials responded that they will enter into a written contract with the psychiatrist.)

8. Use competitive procurement practices (including public advertisement of contracts to be bid) in accordance with the provisions of the Manual and the General Municipal Law.

(District officials responded that they will use the prescribed competitive processes, including the advertisement of bids, to generate sufficient vendor competition.)

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## STUDENT ENROLLMENT

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Section 175.6 of the Commissioner of Education's Regulations prescribes the methodology to be used by the District in calculating the number of full-time equivalent (FTE) students who are enrolled during the school year. Specifically, the Regulations state that enrollment commences on the first day a pupil is enrolled in and is physically present at (or legally absent from) school and terminates on the last day the pupil is enrolled in and is physically present at (or legally absent from) school. For example, a student who is enrolled from September through June is deemed to be in attendance during that period and is calculated at 1.000 FTE. If a student is enrolled for less than the full program duration, then the student's FTE enrollment is determined by dividing the total weeks of enrollment by the total number of weeks the program operated - calculated to three decimal places without rounding. Enrollments must be counted separately for the regular school year and summer sessions.

The Department requires schools, such as the District, to report the enrollments of their various programs so that tuition reimbursement rates can be calculated for the programs. For each program, the District's tuition rate is determined by dividing its reported eligible expenditures by the number of FTE students enrolled. For example, if total eligible costs were \$100 and the number of FTE students enrolled was 25, the tuition rate would be \$4 per student.

To determine whether the District reported FTE enrollments accurately, we reviewed the enrollment statistics that were submitted to the Department and compared them to the District's summary attendance records. Using the available attendance summaries, we calculated the FTE enrollments for the District. As is shown in the following table, we determined that the enrollment statistics reported by the District were incorrect as follows:

Fiscal Year	Semester	Reported FTE	Correct FTE	Error Over (Under)
1999-2000	Summer	166.830	158.333	8.497
	Fall/Spring	169.350	169.289	0.061
2000-2001	Summer	161.990	163.000	(1.010)
	Fall/Spring	167.630	164.231	3.399

District officials acknowledged that they did not always use the method prescribed by the Department to calculate enrollment. As a result of the errors in the District's reported student enrollment, inaccurate tuition rates may have been established for the District's students. If the rates are not accurate, the students' home district (in this case, New York City) may be over-billed or under-billed for each student.

(In responding to our draft audit report, the District acknowledged that it had used an incorrect method to calculate FTE enrollment. However, District officials also stated that the use of correct FTE enrollment data would have had no impact on the District's reimbursement rate because it would have yielded a rate increase that exceeded the maximum increase allowed by the Department. According to officials, the Department had already limited the District to the maximum allowable rate increase for 1999-2000 when the incorrect FTE enrollment data was applied in the rate setting process.)

Auditor's Comments: We acknowledge that the incorrect FTE enrollment data might have had no impact on the rate setting process in this instance. Nevertheless, the District should report FTE enrollment correctly in the future to help ensure that rates will be calculated properly.

### **Recommendations**

To the Department:

9. Consider the corrected enrollment figures presented in this report and take appropriate action.

(Department officials agree with recommendation number 9.)

### **Recommendations (Cont'd)**

10. Monitor the District's enrollment calculations.

(Department officials agree with recommendation number 10.)

#### To the District:

11. Calculate FTE enrollments using the method prescribed by the Department.

(District officials responded that they are now using the prescribed method to correctly calculate FTE enrollments. Officials further indicated that the District's 2001-02 FTE enrollment report was prepared by using the correct method.)

12. Adjust future bills and/or issue refunds to account for any tuition rate changes made by the Department resulting from the application of the corrected enrollment figures.

(District officials responded that they will make any and all adjustments where necessary.)



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# INTERNAL CONTROLS

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We found that improvements are needed in certain of the District's internal controls, particularly its controls over equipment inventory.

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## *Controls Over Equipment Inventory*

According to the District's cost reports, the District spent more than \$81,000 for equipment during our audit period. The Manual requires that inventory records be maintained for all items purchased for approved educational programs, and the inventory records indicate each item's invoice number; make, model or serial number; cost; date of purchase; location; and date retired, when applicable. However, we determined that the District's inventory listing was not complete. Specifically, the listing included only computers, computer peripherals and televisions, and did not indicate these items' cost, date of purchase, location, and date retired. Moreover, some of the District's computers were not included on the listing. In the absence of a complete and accurate equipment inventory record, District officials cannot periodically verify the presence of items, and thereby ensure that equipment is adequately controlled and protected.

To further evaluate the District's controls over equipment, we selected a judgmental sample of three computer purchase orders (three largest in dollar value) from the total of six computer purchase orders during our audit period. The three purchase orders listed 12 computers. We attempted to locate these 12 computers and determine whether they had been recorded on the District's inventory listing. We were unable to locate two of the 12 computers. District officials informed us that the two computers (costing \$2,312) were "cannibalized" for parts. However, there was no documentation accounting for the disposition of the two computers. Four of the 12 computers were not recorded on the District's inventory listing.

District officials told us that they were aware of weaknesses in their inventory control system and planned to implement a new

computerized system that would record and track all required inventory information.

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## **Controls Over Purchases**

In a strong system of internal controls, purchased goods are received at designated locations where employees record whether all the items ordered were received and are in working/usable condition. However, because of its campus-like setting with multiple buildings spread about its grounds, the District did not have a centralized receiving function. Rather, items were usually delivered directly to the employees who used them. Out of the 30 purchase orders sampled, we identified six in which the District paid for goods and services without having adequate documentation that all the items paid for were received and were in working/usable condition or that services were satisfactorily performed.

We recommend that the District formally assess the feasibility of establishing a centralized receiving function. In such a function, a group of designated employees at specified locations would prepare documentation that goods were received, accepted and delivered to the appropriate staff, and they would send the documentation to the accounts payable office to be matched against a vendor's invoice before payment was made. This would also facilitate a better inventory control process, because this document could then be sent to an inventory control person for input onto the inventory record.

### **Recommendations**

To the District:

13. Implement an equipment inventory control system that complies with the requirements in the Manual.

(District officials responded that they are implementing an electronic inventory database that will comply with the requirements of the Manual.)

14. Recommendation deleted.

### Recommendations (Cont'd)

15. Formally assess the feasibility of establishing a centralized receiving function, and designate staff to prepare formal receiving reports for submission to the Business Office to facilitate the payment of bills.

(District officials responded that the receiving function is already centralized and is located in the building where the Purchasing function is housed. Officials also indicated that storeroom staff will sign packing lists or receiving reports and submit them to the business office to document the receipt of goods.)

Auditor's Comments: At the time of our audit fieldwork, the District's receiving function was decentralized, as detailed previously. Moreover, we believe that the new procedures established to verify the receipt of goods will improve controls over the District's procurement function.

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## MAJOR CONTRIBUTORS TO THIS REPORT

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February 6, 2003

Mr. Jerry Barber  
Audit Director  
State of New York  
Office of the Comptroller  
110 State Street  
Albany, NY 12236

Dear Mr. Barber:

This communication is our response to the Audit Report on the policies and practices used by Edwin Gould Academy-Ramapo Union Free School District to report costs and enrollments to the State Education Department for tuition rate-setting purposes for the period **July 1, 1999 through June 30, 2001.**

Since its opening on July 1, 1990 Edwin Gould Academy has operated as a unified residential school. Our mission states that the "Academy operates as a total learning community, where all staff are educators and all programs and activities have planned educational goals." At the Academy we do not distinguish between educational and developmental activities but believe that all education is therapeutic and all therapy is educational. To underscore the importance of this philosophy, all our training manuals, family informational material, yearly reports and strategic plans talk about how we are a school and use educational terminology; we even call our child care workers, "teaching counselors" and our contract with our Teachers' Association enables us to hire teachers between the hours of 7:00 a.m. and 9:00 p.m.

When Edwin Gould Academy first became responsible for students in 1990 it did so after a protracted period of discussion with the New York State Department of Education, the (then) New York State Department of Social Services and the (then) New York City Children's Welfare Administration. Prior to our opening, it was agreed by all these parties that Edwin Gould Academy would operate with a unified administrative structure. Most specifically it was agreed that the Academy would have:

- one Chief Executive Officer or Superintendent/Executive Director who would be responsible for the running of both the Special Act Public School District and the Residential Treatment Center;
- a comprehensive unified Executive Team who would oversee all aspects of the overall program;
- one Fiscal Department, one Purchasing Department, one Personnel Department, one Maintenance Department, one Security Department, one Training Department and one Compliance Department;
- one unified decision making structure in which all staff, "school" and "agency" alike would sit on inter-disciplinary teams and help make decisions about those areas in which they work.

In large part due to this innovative administrative structure, the Academy has been able to cut costs in areas which would not have been possible had the Academy and School continued to operate wholly separately as they did before July 1, 1990. Two examples might be illustrative of the larger point we are trying to make here.

First, before the combining of the administrative structures of School and Agency, there was one Superintendent of Schools with a personal secretary and one Executive Director with two secretaries. Under the current structure there is one Superintendent/Executive Director, (whose salary and benefits are paid by the School and charged back 50% to the residential side). This person has one secretary thus saving Edwin Gould Academy the cost of one large administrative position and two smaller ones.

A second example, is the fact that our Purchasing Department buys everything from copy paper, pens and pencils to telephones and by combining purchasing and buying in bulk is able to save money for both the School and the Agency.

There is also another characteristic of Edwin Gould Academy that is important, for the Commissioner, to be aware of in order for him to form a full understanding of our school and our response to the Comptroller's Audit. The Academy takes only students from New York City and only placements through either the City's Administration for Children's Services or the State Office of Children and Family Services. We do not accept children from counties outside of the five boroughs of New York City, nor do we accept children through the Committee on Special Education process. Every single student who attends Edwin Gould Academy-Ramapo UFSD is in residence at Edwin Gould Academy. There are no day students at the school. What this means is that although the rate that the school is allowed to charge for its educational service is set by the

State Department of Education, it is paid by New York City, specifically by the Administration for Children's Services.

For the above reason, we do not believe that treating us as an entity separate and apart from the Academy makes sense. The implications for this report are enormous. Just take one example, the Audit Report suggests that the School District should not be paying for sneakers for its school basketball team. This is a debatable point, for any School District, but within the context of Edwin Gould Academy, whichever way the point is decided, does not matter. If the School should not be paying for the sneakers, then the Academy should; in either case the money comes from New York City and is paid by the Administration for Children's Services.

\*  
Note  
1

We attempted to explain these special circumstances and characteristics of Edwin Gould Academy to the auditing team at our entrance meetings. We have tried to respond to each finding on its own merits, as noted in the bulk of this response, but in addition, we believe that the Department of Education and the Commissioner should take into account this fuller picture when issuing the final determination of what the Academy "owes back." The State Comptroller's Audit disallowed overall a total of **\$227,801.00**.

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Note  
2

To reiterate our position, we believe that with one or two exceptions, as noted below, all the expenses disallowed in the Audit were legitimate expenses within the context of our unified residential school and that even if, by the Cost Reimbursement Manual, they are determined to be disallowed, that the City and the Administration for Children's Services still would incur the costs.

\*  
Note  
1

The State Comptroller's Audit disallowed overall a total of \$227,801 reported by the District. After reviewing these costs, the Academy believes strongly that many of these costs are reasonable, necessary and consistent with the Manual and shouldn't be disallowed. We will present our arguments in the **District's Response** to the **Auditor's Comments** in this following segment:

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Note  
2

This component of the report will present the **Auditor's Comments** and the **District's Response** to these comments:

**1. Auditor's Comment (Student Enrollment)**

**It was determined by the Auditors that the District did not accurately calculate and report its full-time equivalent enrollment to the Department. As a result the Department could not correctly calculate the District's tuition rate. If the**

**rates are not accurate, the students' home district (in this case, New York City) may be over billed or under billed for each student).**

**1. District's Response**

*As stated in the Audit Report, the District has been using an incorrect method to calculate our student full-time equivalent (FTE) as reported on the ST3. In both years the FTE as reported was higher than the correctly calculated FTE. Since the reported FTE is used to calculate the per diem rate, by dividing the total eligible costs by the FTE, the higher FTE could have resulted in a lower reconciliation rate for the 1999-2000 year, however, since the rate for 1999-2000 was increased by the maximum allowed, the effect of changing the FTE number is nil. Rates have not yet been established for 2000-2001.*

*Since the Audit, the District has changed its method of calculating the full-time equivalent (FTE). The 2001-2002 ST3 report reflected the correct calculations using the proper format.*

**2. Auditor's Comment (Cost Not Eligible According to the Reimbursement Cost Manual)**

**We examined a portion of the reimbursable costs reported by the District for our two-year audit. We determined that, according to the manual, \$138,541 of these costs were ineligible for reimbursement**

**2. District's Response**

*After reviewing the costs in the **Auditor's Comments** for #2 and #3, the District believes strongly that many of these costs are reasonably necessary and consistent with the Reimbursable Cost Manual and they shouldn't be disallowed. The Reimbursable Cost Manual is ambiguous in areas and doesn't give a clear and concise meaning of intent.*

*The following are examples of some legitimate expenses that are in question as to where payment should come from:*

**\$10,146.00 for students' entertainment and parties**  
**\$ 3, 659.00 for students' prom expenses**

*The at-risk students that are remanded to us for many reasons often lack the social skills to make them productive students and citizens. It is our responsibility as educators to address their many needs and enhance their chances of being successful in school. In order to do this we must look at the total child and his/her Individualized Education Program. This also means implementing creative methods of teaching that will hold the students' interest and encourage him/her to learn. For example, an English lesson: **Read and discuss a book with the class and point out the various components of the story such as protagonist, etc.** On completion of this task, a trip to the movies or play based on the book can promote interest, stimulate dialogue and enhance written assignments. The reasonable cost for this movie or play cannot be weighed against the outcome of such an experience.*

\*  
Note  
3

*Other extra curricula activities, such as school dances and prom expenses, are also normal activities that a regular child will and should encounter by going to school. These activities are school related, but due to the nature of being a residential school, our students often aren't afforded these normal experiences. Yet, they are entitled to have these experiences. The District believes in normalcy and these normal interactions are important in the total education and development of our students. These students don't have parents to pay for these expenses and if the Academy is limited in their funds that doesn't mean these students should be denied these school related activities. The District sees this to be not only a reasonable and ordinary cost but necessary for the growth and education of at-risk students who reside in a residential setting.*

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Note  
4

**\$5,671.00 for clothing and sneakers**

*The facility that the students reside in does purchase sneakers for daily wear, however, students that participate in team sports need appropriate footwear for health and safety reasons. If the facility is limited by their clothing allowance and unable to purchase the proper footwear this would limit the amount of students on teams. The District has found it to be reasonable and necessary to obtain the proper sneakers for students and have as many students as possible participate in these team activities. Most of our students have not been successful in school and very often sports gives them the opportunity to excel and feel a sense of self esteem and belonging.*

\*  
Note  
5

*When they feel good about themselves they are then more motivated to learn.*

**3. Auditor's Comment (Cost Not Eligible According to the Reimbursement Cost Manual)**

**We disallowed \$32,622 because the costs related to activities are not recognized as ordinary and necessary for the approved educational program such as:**

- a. A trip to a major amusement park in New Jersey at a cost of \$11,373 are normally assumed by parents of students attending public schools.**
- b. Yearbooks purchased for students at a cost of \$21,249.**
- c. We also disallowed \$19,833 that was paid by the District for food and beverages served during various meetings and school functions.**
- d. \$29,588 in retainer fees for legal services because they exceeded the amount that would have been paid if the services had been paid for as they were provided.**

**3. District's Response to 3A**

**\$11,373 was spent on a number of field trips to Great Adventure Park in New Jersey**

*Edwin Gould Academy students are all instructed in Positive Peer Culture and identify with a particular group. The group meets daily under the supervision of a Team Leader and are a support system for one another.*

*The students help each other learn to build on their strengths and to correct their weaknesses. Group bonding is a crucial part of this process. Edwin Gould Academy believes that these recreational type trips and activities are appropriate for our type of student and serve as an alternative way of teaching. These trips are a vehicle for developing the student's social skills, improving behavior, and motivating learning thus deemed important to our type of program.*

*Page 10 of the Reimbursable Cost Manual, #11, Activities, Part A is as follows:*

"a. *Costs incurred for intramural activities, student publications, student clubs and other student activities, to the extent such activities are normally provided by public day schools, are reimbursable direct care expenditures. Reasonable costs of class field trips during school hours and extra-curricular activities after school hours are reimbursable as direct care expenditures" – Page 10 of the Reimbursable Cost Manual, #11, Activities, Part A*

*As seen on Page 10 of the Reimbursable Cost Manual, class field trips are vague and not clearly defined. Nowhere in the Reimbursable Cost Manual does it exclude parks as a field trip. It just states that the cost be reasonable. Who determines what is reasonable? There were two different costs involved for different groups of students.*

*\$23.00 for the theme park  
and  
\$18.99 for the Hurricane Harbor.*

*In today's world, these are not prohibitive costs and should be considered reasonable costs for the success that is derived from such a class field trip.*

\*  
Note  
6

### **District's Response to 3B**

#### **\$21,249.00 for yearbooks purchased for students**

*Edwin Gould Academy attempts to normalize the lives of the students in our care. Many do not have parents and those that do are not able to afford items like yearbooks. In regular public schools there are associations and advertisements that cover costs related to yearbooks. Yearbooks are a school related activity. If the District doesn't absorb the cost our students lose this high school experience. Due to the nature of our students we consider this to be a reasonable and ordinary cost to help build self esteem and pride in their school and education.*

\*  
Note  
7

### **District's Response to 3C**

#### **\$19,833 disallowed for food and beverages**

*This was paid by the District for food and beverages served during various meetings, school functions and staff training sessions. \$13,019.87 of the above cost was incurred as part of an extensive staff training program at the District. Staff training and development is considered a crucial component of success for our program. Training is a requisite for preparing staff to work in a therapeutic milieu. It addresses student behaviors and offers intervention techniques and support to deal with and educate at-risk students. The District believes it is reasonable and ordinary to feed staff when they are required to be located in a room for most of the day for staff development training, which is different than a meeting. From surveying other public schools in Rockland County, it has come to our attention that they also provide food for staff during training sessions.*

*The following are some of the types of all day training where food and beverages were provided:*

- *Positive Peer Culture Training*
- *Life Space Intervention (De-escalating problems before they get out of hand)*
- *Committee on Special Education and Individual Education Plan*
- *IDEA Re-authorization*
- *Study Skills Workshop*
- *Therapeutic Crisis Intervention Training*

*As seen on Page 26 of the Reimbursable Cost Manual, Item 30, **Meetings and Conferences**, #4, costs of conferences attended by teachers and other direct care staff whose purpose is to improve desired student learning outcomes by more effective means are reimbursable. The costs of the conference are not clearly defined in the Reimbursable Cost Manual.*

*The District believes a legitimate component of bringing staff together for a training conference is food and beverage. This is included in the total cost of these conferences.*

* Note 8
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### **District's Response to 3D**

**\$29,588.00 in legal retainer fees in excess of services rendered**

\* See State Comptroller's Notes, Appendix C

*This was a lack of understanding on the District's part concerning retainers vs. hourly basis. Shaw & Perelson have been the legal counsel for the School District since 1990 and Edwin Gould Academy believes that over the years their service has far exceeded the hours when you take into account the training that they also provided to staff. Keeping them on a retainer made them readily available to guide administration and give quick responses to our needs. This kept us from entering costly litigations.*

\*  
Note  
9

#### **4. Auditor's Comment (Inadequately Documented Costs)**

**According to the Manual, costs will not be reimbursable if not adequately documented. Documentation for counseling services provided to students must specify both the names of the student receiving the services and the amount of time spent with each student. The documentation maintained by the District for such services did not include this information, the District's documentation indicated only the dates the services were provided and the number of hours provided each day.**

**\$86,008 was disallowed and a recommendation that improvements be made in the District's documentation.**

#### **4. District's Response**

*Since the above Auditor's Comment was written additional information was found and the Auditors did graciously agree to revisit Edwin Gould Academy and review it.*

*The District has supplied the auditors with additional documentation in response to the counseling services for students. Some of the other services that the psychiatrist provided deals with psychiatric notes, and counseling sessions other than psychiatric evaluations. Part of the psychiatrist's duties was also to act as a back-up for Dr. Walker in emergencies or when he was on vacation or days off.*

\*  
Note  
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*\$3,830.00 for malpractice insurance expenses paid directly to a psychiatric consultant was questioned. This payment was part of a verbal contract between the District and the psychiatrist who did the psychiatric evaluations for the Committee on Special Education. A pre-requisite, verbally requested by the psychiatrist, for evaluating Edwin*

*Gould Academy students was that this insurance be covered by the District.*

**5. Auditor's Comment (Controls Over Purchases)**

**The Director of Purchasing can authorize purchases and often receives goods that are ordered (Page 15, 2<sup>nd</sup> Paragraph of the Auditor's Report)**

**5. District's Response**

*The Director of Purchasing **does not** have final authorization on purchases. He/she verifies the prices and makes sure the appropriate signatures have been obtained on the Special Item Request form prior to forwarding to the District's Accounts Payable for the purchase order to be generated. Once the District's Accounts Payable generates the purchase order, it and all the related documentation is then sent to the Assistant Superintendent for authorization of purchases. The approved purchase order is then forwarded to the Director of Purchasing to place the physical order.*

* Note 10
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**6. Auditor's Comment (Controls Over Purchases)**

**The Director of Purchasing can also pay directly for some of the goods, since she controls the Petty Cash account.**

**6. District's Response**

*The Director of Purchasing is not the custodian of Petty Cash for the Edwin Gould Academy-Ramapo UFSD. The custodian of the District Petty Cash is: (quoted from Board Minutes):*

**"Petty Cash**

*Mr. Spivey recommended the establishment of the following Petty Cash Funds (1) Director of Programs and Students Services, (2) Treasurer, (3) Agape Principal, (4) Desafio Principal, and (5) Imani Principal; be established, and Bruce Bishop, Rose Devine, Fran Meyer, Wes McAllister, and the Imani Principal, when hired, be appointed as their respective custodians. Upon a motion made by Ms. Alessi, seconded by Dr. Oates and unanimously agreed, it was hereby:*

\* See State Comptroller's Notes, Appendix C

**RESOLVED** to establish Petty Cash funds for the Director of Programs and Student Services, Treasurer, Agape Principal, Desafio Principal, Imani Principal and Bruce Bishop, Rose Devine, Wes McAllister and the Imani Principal, when hired, be appointed as their respective custodians.”

*The Director of Purchasing is custodian over the Residential Treatment Center Petty Cash which is under the jurisdiction of the Office of Children and Family Services and the Administration for Children's Services. Although he/she is custodian of such, he/she has no authority whatsoever to draw funds out of the Academy Petty Cash without the approval of an Executive Deputy Director/Assistant Superintendent and under no circumstances would the Director of Purchasing have access to the School Petty Cash without approval of the Executive Deputy Director/Assistant Superintendent.*

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Note  
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**7. Auditor's Comment (Controls Over Purchases)**

**While duties cannot always be fully separated in organizations with a limited number of staff, compensating controls such as supervisory reviews and sign-offs can help provide adequate controls.**

**7. District's Response**

*The Assistant Superintendent for Administration now approves all invoices in addition to the Director of Purchasing verifying that the invoice is correct for processing.*

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Note  
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**8. Auditor's Comment (Controls Over Purchases)**

**However, because of its campus-like setting with multiple buildings spread about its grounds, the District does not have a centralized receiving function (Page 15, 3<sup>rd</sup> Paragraph of the Auditor's Report)**

**8. District's Response**

*The District's receiving function **is centralized**. It is located in the building where the Purchasing function is housed. All goods are delivered to the storeroom within the receiving area. Upon delivery the storeroom clerk verifies all items in the order have been delivered,*

*and checks that they are in apparent operating order. If there is a problem, the storeroom clerk informs the Director of Purchasing who then follows up with the vendor for resolution and, if need be, with the staff who put in the purchase request.*

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Note  
11

**9. Auditor's Comment (Controls Over Inventory)**

**This would also facilitate a better inventory control process, because this document could then be sent to an inventory control person for input onto the inventory record (Page 15, 4<sup>th</sup> Paragraph of the Auditor's Report)**

**9. District's Response**

*The Edwin Gould Academy-Ramapo UFSD has commenced implementing an electronic inventory database called Aperture. After purchasing the Aperture Software Program, the Asset Management module was customized for our facility. Training sessions have been held and the process of surveying and bar coding the entire campus has begun. The Aperture Program will allow us to "place" the inventory (furniture, computer equipment, etc.) directly onto the CAD drawings JMOA originally provided. Each item will be visually documented and linked to a comprehensive description database. We will instantly be able to recover the item number, cost, model, serial number, age, location, etc. We can categorize by School, Academy, Grant, etc. We can track warranties, and quickly generate reports for audits or insurance claims. Movement of furniture is easily tracked.*

**10. Auditor's Comment (Controls Over Inventory)**

**Additionally, they told us they would look into centralizing their receiving function (Page 16, 1<sup>st</sup> Paragraph of the Auditor's Report)**

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Note  
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**10. District's Response**

*There seems to be a misunderstanding. The District will look at its process for improvements, but the Purchasing area, as previously stated, is already a centralized process.*

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Note  
11

\* See State Comptroller's Notes, Appendix C

**Recommendations**

**Recommendations 1 and 2 pertain to the Department, not to the District.**

**To The District**

- 3. Only report costs to the Department that are allowable pursuant to the Manual.**

*The District will ensure that all future costs reported are allowable pursuant to the Manual. The Manual, however, has some unclear areas that really are not explicit in what is being stated. The Manual needs to be updated and training should be provided on an annual basis to ensure compliance. This training is especially important for new staff.*

- 4. Review the procedures for allocating costs between educational and residential programs, and calculate the allocations using appropriate methodologies that are supported by adequate documentation.**

*The District will review all allocation costs annually and ensure that the methodologies used are appropriate and are supported by adequate documentation.*

- 5. Ensure that all bills for goods and services are supported by adequate documentation prior to payment. With regard to claims from the psychiatric consultant, ensure that such claims include all data prescribed by the Manual, including the names of the students served and the duration of the services.**

*The District will ensure that all bills for goods and services are supported by adequate documentation (stated in the Manual) prior to payment. All claims from consultants will be fully documented prior to payment.*

- 6. Maintain adequate supporting documentation, including vendor invoices and receipts, for all expenses.**

*The District will maintain supporting documentation, including vendor invoices and receipts, for all expenses.*

**7. Enter into a written contract with the psychiatric consultant for counseling services. Ensure that the contract addresses all of the matters prescribed by the Manual.**

*The District will enter into a contract written with the psychiatrist.*

**8. Use competitive procurement practices (including public advertisement of contracts to be bid) in accordance with the provisions of the Manual and the General Municipal Law.**

*The District will use competitive procurement practices as prescribed by law. The District will comply with the General Municipal Law requiring all public works contracts of more than \$20,000 and all purchase contracts of more than \$10,000 to be awarded to the lowest bidder. An advertisement for bids will be published, in the Board approved newspapers, to help generate sufficient vendor competition.*

**Recommendations 9 and 10 pertain to the Department, not to the District.**

**11. Calculate FTE enrollments using the method prescribed by the Department.**

*As stated in the Draft Final Audit Report, the District has been using an incorrect method to calculate our student FTE as reported on the ST3. The District has changed its method of calculating the FTE to the prescribed method. The District's 2001-2002 ST2 report reflected the correct calculations using the proper method.*

**12. Adjust future bills and/or issue refunds to account for any tuition rate change made by the Department resulting from the application of the corrected enrollment figures.**

*The District will make any and all adjustments where necessary. In both the audit years the FTE as reported was higher than the correctly calculated FTE. Since the reported FTE is used to calculate the Per Diem Rate, by dividing the Total Eligible Costs by the FTE, the higher FTE could have resulted in a lower Reconciliation Rate for the 1999-2000 year. However, since the rate for 1999-2000 was increased by the maximum allowed, the effect of changing the FTE number is nil. Rates have not yet been established for 2000-2001*

**13. Implement an equipment inventory control system that complies with the requirements in the Manual.**

*The Edwin Gould Academy Ramapo UFSD is implementing an electronic inventory database, which will comply with the requirements in the Manual. The database will capture the following items: invoice number, date of purchase, program using the asset and continue to capture the description of the item, the make, model, serial number, and location of asset purchased. Copies of the invoices will be forwarded to the inventory control person for processing.*

**14. Either establish an appropriate separation of duties for the purchasing function or develop adequate compensation controls such as formal supervisory review and sign-off for purchases.**

*The District feels the following existing established procedures and controls already ensure separation of duties, and supervisory review of purchase transaction:*

*The Director of Purchasing verifies the prices and makes sure the appropriate approved signatures have been obtained on the requisition. The requisition is then sent to the District's Accounts Payable for the purchase order to be generated. The purchase order, with all the related documentation, is then sent to the Assistant Superintendent for authorization of purchases. The approved purchase order is then forwarded to the Director of Purchasing to place the physical order.*

\*  
Note  
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**15. Formally assess the feasibility of establishing a centralized receiving function, and designate staff to prepare formal receiving reports for submission to the Business Office to facilitate the payment of bills.**

*The District's receiving function **is centralized**. It is located in the building where the Purchasing function is housed. All goods are delivered to the storeroom within the receiving area. Upon delivery the storeroom clerk verifies that all items in the order have been delivered and are in apparent operating order. If there is a problem the storeroom clerk informs the Director of Purchasing who then follows up with the vendor for resolution and, if need be, with the staff who put in the purchase request.*

\*  
Note  
11

*The District will implement the following on receipt of goods: All packing lists from vendors will be verified and signed by the Storeroom staff receiving the goods. When there is not a packing list from the vendor, the receiving copy of the Purchase Order will be used to verify the shipment and will be forwarded to the Business Office to facilitate the payment of bills.*

## **Conclusion**

As previously stated, Edwin Gould Academy is unique in the fact that the whole campus is a learning environment and teaching is considered a twenty-four hour process by all employed staff.

The Edwin Gould Academy-Ramapo Union Free School District welcomes the recommendations stated in this Audit Report and has commenced steps to implement changes where inappropriate procedures are being used. Edwin Gould Academy acknowledges that some operational weaknesses exist but also strongly believes that the fiscal and programmatic integrity of the District has not been compromised in any way. The Reimbursable Cost Manual has been issued to all appropriate staff and measures are being taken by the Assistant Superintendent to assure that all expenses are in compliance. The Edwin Gould Academy Administration assumes responsibility and supports this self-assessment improvement process and is grateful to have been part of this audit process.

Thank you for your cooperation and guidance in this matter. It has been a pleasure working with you.

Sincerely,



Mary Ann Dowling  
Assistant Superintendent for Administration

MAD:nma

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## ***State Comptroller's Notes***

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1. We acknowledge the relationship between the Edwin Gould Academy and the Edwin Gould Academy – Ramapo UFSD. However, to establish appropriate cost controls and facilitate proper financial reporting, the State distinguishes educational programs from residential programs for this type of institution. It should also be noted that there are limitations on costs that can be charged to each of these programs. Furthermore, the fact that a cost may be ineligible under the educational program does not necessarily mean that it would be eligible under the residential program. However, to facilitate control, management should charge costs to the appropriate program.
2. At the District's request, we reviewed additional documentation in support of payments to a psychiatric consultant that the District provided to us after we issued the draft audit report. Based on our review of this documentation, we allowed additional costs of \$6,075. This reduced the disallowance of payments to the psychiatric consultant to \$79,933 (from \$86,008) and reduced the total audit disallowance to \$221,726 (from \$227,801).
3. As noted in the report, the disallowance of \$10,146 pertained to costs for equipment rentals, disk jockeys, and trips associated with student entertainment and parties. The District did not document how these activities directly related to any particular classroom instruction.
4. Although a prom is a school-related activity, the Manual specifically precludes costs that are normally assumed by parents or legal guardians. In general, parents or guardians (as opposed to public school districts) have historically assumed the costs for proms, including the related costs for limousine service.
5. Parents or guardians have normally assumed the costs for students' clothes and footwear, including sneakers. Consequently, these costs are not allowable per the Manual. Such costs may be eligible for reimbursement through the residential program.
6. Trips to amusement parks do not represent reasonable, ordinary, and necessary educational costs. Traditionally, parents or guardians have usually assumed such costs. Furthermore, although the District characterizes the ticket prices for the parks as not prohibitive, such costs are not consistent with the Manual. Moreover, the District did not document how the trips to the amusement parks directly related to any particular classroom instruction that was actually provided to the students who went to the parks.
7. Although yearbooks may be a normal aspect of a school experience, they represent costs that are normally assumed by parents or guardians, and therefore, they are not allowable per the Manual.

8. We acknowledge the eligibility of costs for staff training. However, as noted in the report, the Manual states that costs for food and beverages provided to staff are not eligible for reimbursement. Consequently, we allowed the costs directly related to the staff training, but disallowed costs for food and beverages.
9. We acknowledge that it may be beneficial to keep legal counsel on retainer to be readily available to respond promptly to the District's legal needs. Nevertheless, as required by the Manual, the total payments made to legal counsel must correspond to the actual services rendered as evidenced by the available documentation.
10. Certain matters addressed in the draft audit report were revised or deleted from the final report. Therefore, some agency comments included in Appendix B may relate to matters no longer contained in this report.
11. At the time of our audit fieldwork, the District's receiving function was decentralized, as detailed within the text of our report. Moreover, we believe that the new procedures established to verify the receipt of goods will improve controls over the District's procurement function.



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

CHIEF OPERATING OFFICER  
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January 31, 2003

Mr. Jerry Barber  
Audit Director  
Office of the State Comptroller  
Division of Management Audit  
and State Financial Services  
110 State Street  
Albany, NY 12236

Dear Mr. Barber:

The following are the New York State Education Department's comments to the Draft Audit Report (2002-S-12) for the Edwin Gould Academy-Ramapo Union Free School District, July 1, 1999 through June 30, 2001.

**Recommendation #1:**      **Formally evaluate the audit disallowances identified in this report and take appropriate action.**

We agree with the recommendation.

**Recommendation #2:**      **Periodically perform field site visits to ensure the District is complying with the Manual, and has implemented the recommendations contained in our report.**

We agree with the recommendation and will periodically visit the school as staffing resources permit.

**Recommendation #9:**      **Consider the corrected enrollment figures presented in this report and take appropriate action.**

We agree with the recommendation.

**Recommendation #10:**      **Monitor the District's enrollment calculations.**

We agree with the recommendation.

If you have any questions regarding this response, please contact Thomas Hamel at (518) 486-2991.

Sincerely,



Richard H. Cate

cc: Thomas Hamel