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October 5, 1998

Mr. Carl T. Hayden
Chancellor
The University of the State of New York
State Education Building
Albany, New York 12234

Barbara A. DeBuono, M.D., M.P.H.
Commissioner
New York State Department of Health
Corning Tower
Empire State Plaza
Albany, New York 12237

Re: Putnam County Transportation Aid
Report 97-S-69

Dear Chancellor Hayden and Commissioner DeBuono:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we audited the State Education Department's payment of State aid to Putnam County for claimed transportation costs pertaining to the Preschool Handicapped Education Program. We also audited the Department of Health's payment of State aid to Putnam County for claimed transportation costs pertaining to the Early Intervention Program. Our audit included a review of paid claims for the period July 1, 1992 through June 30, 1996 and a determination of allowable transportation costs for the school year ended June 30, 1997.

A. Background

The State Education Department (SED) is the administration agency of the State Board of Regents. The Board of Regents and SED govern education from pre-kindergarten to graduate school and are responsible for establishing and ensuring compliance with educational policy, standards and rules.

The Preschool Handicapped Education Program (Preschool program) was established to provide special education services to three and four-year-old children with handicapping conditions. Effective July 1, 1989, legislation removed responsibility for this program from the Family Court system and assigned it to school districts. Each school district is responsible for the evaluation and placement of preschool children with handicapping conditions. However, it is the responsibility of officials of the child's county of residence to contract with approved Preschool program providers selected by the child's local board of education and to provide, directly or by contract, for each child's transportation to and from the program. SED is responsible for administering the Preschool program and reimburses about 60 percent of program costs, including transportation.

The New York State Department of Health (DOH) fosters the provision of high quality and appropriate health services at reasonable cost to all New York State residents. DOH promotes and supervises public health activities throughout the State, ensures sound and cost-effective quality medical care for all residents, and reduces the toll on public health from chronic disabling illnesses.

The Early Intervention Program (EIP) is part of a Federal initiative to develop a statewide, family-centered system of early intervention services for infants and toddlers up to three years of age who either have a developmental delay or have a diagnosed physical or mental condition with a high probability of becoming a developmental delay. DOH was designated as the lead agency for the EIP in 1987. However, the section of the Public Health Law that established the EIP as a full-entitlement program was not passed until 1992, with DOH taking over the day-to-day administration of the program on July 1, 1993. (Prior to this, SED was responsible for the predecessor program for children under three with disabilities.) DOH reimburses 50 percent of EIP costs, including transportation.

In preparing to conduct a statewide audit of the transportation associated with the Preschool program, we analyzed data reported to SED by the counties for the 1994-95 school year and determined that Putnam County had the highest average transportation cost per child for the year. Putnam reported its 10 month (September 1994 through June 1995) transportation cost per child in school year 1994-95 as \$12,528. Of the other counties that spent over \$1 million that year to transport children to and from the Preschool program, the next two highest average transportation costs per child were \$5,325 in Nassau County and \$5,290 in Rockland County. We also determined that Putnam County's total transportation costs for the Preschool program for the 1993-94 and 1994-95 school years nearly doubled what was reported for the years immediately preceding this two-year period. We therefore decided to audit the State aid claims submitted by Putnam County for costs incurred in transporting students in both the Preschool program and the closely related EIP.

Putnam County owns its own buses and garage facilities, but contracts with a private firm for bus operation and maintenance. The buses are used for public transportation and for various programs including the Preschool program, the EIP, and other social services programs.

B. Audit Scope, Objectives and Methodology

We audited the State aid paid to Putnam County for Preschool program and EIP transportation services for the period July 1, 1992 through June 30, 1996, and we determined the allowable costs for the school year ended June 30, 1997. The objective of our audit was to determine the accuracy of the transportation costs reported by Putnam County to SED and DOH, and to determine the amount, if any, of State aid overpayments. To accomplish our objectives we compiled and analyzed relevant data and interviewed officials from Putnam County, SED and DOH. We audited cost records maintained by Putnam County as well as reimbursement documentation maintained by both SED and DOH to determine any State aid overpayments.

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 the Putnam County, SED and DOH operations that are within our audit scope. Further, these standards require that we understand these entities' internal control structures and their compliance with those laws, rules and regulations that are relevant to the operations included within 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 our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use our finite audit resources to identify where and how to make improvements. Thus, we devote little audit effort to reviewing operations that may be efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

C. Results of Audit

For the four school years ended June 30, 1996, Putnam County officials claimed \$4,532,457 in transportation costs for the Preschool program and the EIP. We identified a number of weaknesses in the system used by County officials to determine these costs. For example, expenses which were unrelated to the two programs were included in the determination of reimbursable costs and certain expenses were not properly allocated between the two programs. As a result of these and other weaknesses, transportation costs for the two programs were not accurately determined. We note that, because certain improvements were made by County officials, costs were more accurately determined for the year ended June 30, 1996.

To determine the amount of transportation costs that should have been claimed for the two programs for the four years ended June 30, 1996, we reviewed various records available at Putnam County. On the basis of these records, we identified \$3,145,823 in allowable transportation costs for

the four-year period. Consequently, Putnam County's claims for the four-year period were overstated by a total of \$1,386,634. As a result of this overstatement, State transportation aid for the Preschool program was overpaid by \$774,079 and State transportation aid for the EIP was overpaid by \$42,057.

Since Putnam County officials had yet to submit their transportation claims for the year ended June 30, 1997, we reviewed the available records to determine the allowable transportation costs for that year. We identified a total of \$950,966 in such costs. Therefore, SED and DOH should limit Putnam County's school year 1996-97 reimbursement for the Preschool program and EIP, respectively, to \$950,966 in combined allowable transportation costs.

Recommendations

State Education Department

1. *As described in this report, recover or offset the \$774,079 in aid overpayments for the Preschool program for school years 1992-93 through 1995-96. Recover \$16,420 in aid overpayments for the Early Intervention program for school year 1992-93.*

Department of Health

2. *Recover or offset the \$25,637 in aid overpayments to Putnam County for school years 1993-94 through 1995-96.*

State Education Department and Department of Health

3. *Work with Putnam County officials in their continuing efforts to develop a system to accurately accumulate, allocate and report transportation costs for the Preschool Handicapped Education and Early Intervention Programs.*

4. *Limit Putnam County's school year 1996-97 reimbursement for the Preschool program and EIP to \$950,966 in combined allowable transportation costs.*

A draft copy of this report was provided to SED and DOH officials for their review and comment. SED and DOH comments have been considered in preparing this report and are included in Appendix A and Appendix B, respectively. SED officials concur with our audit recommendations, but point out that any additional records for the 1996-97 school year may require the \$950,966 total transportation claim to be amended. DOH officials also agree with our recommendations, but clarify that before a recovery or offset can take place, the DOH Commissioner must establish procedures for informing the State Early Intervention Coordinating Council and the Putnam Early Intervention Coordinating Council of the intention to recover or offset. The DOH must consider any alternative courses of action proposed by either council prior to withholding state reimbursement. DOH officials state that an on-site program and fiscal review will take place at Putnam County followed by a corrective action plan if warranted, with technical assistance and supervision by DOH.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioners of the State Education Department and the New York State Department of Health will report to the Governor, the State Comptroller, and leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Robert Lindholm, Thomas A. Nowinski, Donald D. Geary, Marianne Boyer, Kristee Iacobucci, Ricardo Pimentel and Dana Newhouse.

We wish to express our appreciation to the management and staff of SED, DOH and Putnam County for the courtesy and cooperation extended to our auditors during this examination.

Very truly yours,

Jerry Barber
Audit Director

cc: Robert J. Bondi
Robert L. King