

THOMAS P. DINAPOLI
COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 17, 2016

Ms. MaryEllen Elia
Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Mr. Darrell Newvine
Executive Director
The Child Development Council, Inc.
24 Cherry Street
Johnson City, NY 13790

Re: Compliance With the Reimbursable
Cost Manual
Report 2016-S-22

Dear Ms. Elia and Mr. Newvine:

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 Section 4410-c of the State Education Law, we conducted an audit of the expenses submitted by The Child Development Council, Inc. (TCDC) to the State Education Department (SED) for purposes of establishing the preschool special education tuition reimbursement rates used to bill public funding sources that are supported by State aid payments.

Background

TCDC, a not-for-profit organization located in Johnson City, New York, is an SED-approved provider of preschool special education services. TCDC offers a range of services and programs to children with disabilities who are between three and five years of age. During the period July 1, 2013 through June 30, 2014, TCDC provided Preschool Special Education Itinerant Teacher services, Preschool Integrated Special Class services – over 2.5 hours per day, and Preschool Integrated Special Class services – 2.5 hours per day (collectively referred to as the Programs). During the 2013-14 school year, TCDC provided preschool special education services to about 150 children with learning disabilities from 19 school districts located in six counties in Central New York.

The counties that use TCDC's preschool special education services pay tuition to TCDC based on reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the special education tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by TCDC on its annual Consolidated Fiscal Report (CFR) filed with SED. Costs reported on the CFR must comply fully with the guidelines in SED's Reimbursable Cost Manual (RCM) regarding the eligibility of costs and documentation requirements, and must meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2014, TCDC reported about \$1.8 million in reimbursable costs on its CFR for the Programs.

Results of Audit

According to SED guidelines, costs reported on the CFR are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and properly documented. For the fiscal year ended June 30, 2014, we identified \$16,699 in other than personal service costs that were charged to the Programs on TCDC's CFR that did not comply with SED's requirements for reimbursement.

Other Than Personal Service Costs

Allocation of Property Costs

Expenditures that cannot be directly charged to a specific program must be allocated across all programs that benefit from those expenditures. We identified \$5,394 in property expenses that were not eligible for reimbursement because they were not correctly allocated to the Programs. For example, TCDC charged the entire amount of the interest expense for one building to the Programs even though the Programs only used half of the building's space. As a result, \$1,409 in ineligible interest expense was charged to the Programs. We also determined the square footage used by TCDC to allocate property costs to the Programs did not properly account for space that was used by other programs or space that was used for administrative purposes. As a result, \$3,985 in excessive costs were allocated to the Programs.

Food Costs

According to the RCM, the cost of food for students and food-related salary and fringe benefit costs (e.g., costs incurred for food preparation) are reimbursable. However, programs are expected to take full advantage of the funding available through other sources, such as the Child and Adult Care Food Program (CACFP) administered by the Department of Health. CACFP reimburses a variety of food-related expenses, including certain operating expenses such as mileage incurred for the delivery of food. Further, food that is provided to staff is not reimbursable under the RCM.

We identified a total of \$3,609 in food costs that were ineligible for reimbursement. TCDC reported \$2,742 for mileage expenses incurred for the delivery of food to the Programs that would have been funded under CACFP, had TCDC sought reimbursement. The remaining \$867 was related to food for staff.

Non-Reimbursable Consultant Costs

According to the RCM, certain costs for consultant services are reimbursable provided they are sufficiently supported and do not exceed the prevailing rate for the services. To support consultant costs, the RCM requires a written contract as well as itemized invoices that specify the services actually provided, the service dates, the number of hours provided, and the fee per hour. Costs must also be necessary to be reimbursed.

We identified \$2,337 in costs for consultant services that were ineligible for reimbursement. The costs included:

- \$1,786 for a direct care contractor who did not have a contract with TCDC, as required. In addition, the rate that TCDC paid to the contractor exceeded the allowable rate set by SED; and
- \$551 in unnecessary costs for a therapist for hours spent on site between therapy sessions.

Non-Program-Related Costs

The RCM states costs will be considered for reimbursement if they are directly related to the special education programs. We identified \$2,309 in costs that were ineligible for reimbursement because they were not related to the Programs. These costs included:

- \$1,405 in contracted services for non-Program-related evaluations;
- \$687 for travel costs related to services provided to students who were not in the Programs; and
- \$217 in paint supplies to paint a room that was not used by the Programs.

Other Non-Reimbursable Costs

According to the RCM, costs are reimbursable provided they are sufficiently documented and necessary. Further, costs for gifts and donations are not reimbursable. We identified \$1,638 in costs that were ineligible for reimbursement because they were not in compliance with the RCM requirements. These costs included:

- \$1,031 in costs that did not have sufficient supporting documentation;
- \$368 for gifts to staff;
- \$158 for donations; and
- \$81 for unnecessary credit card fees incurred by TCDC.

Undisclosed Less-Than-Arm's-Length (LTAL) Relationship

According to the RCM and the CFR Manual, LTAL relationships must be disclosed in the notes to the audited financial statements as well on CFR Schedule 5. Additionally, the RCM requires all LTAL transactions to be supported by documentation which shows the actual costs of the related-party vendor. Actual costs are the costs that the LTAL vendor incurs.

We identified \$1,412 in costs that were ineligible for reimbursement because they were not supported by the documentation required by the RCM. Further, the costs were not disclosed on the CFR as required. We determined the costs were for payments to companies owned by members of TCDC's Board of Directors. Although TCDC did have a conflict of interest policy in place during our audit period, the policy did not include a process for identifying board members' conflicts of interest on an ongoing basis. Consequently, no conflicts of interest were disclosed during our audit period. Since our audit period, TCDC updated its policy, which now includes an annual requirement for board members to file a conflict of interest disclosure form.

Recommendations

To SED:

1. Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on TCDC's CFR and to TCDC's tuition reimbursement rates.
2. Remind TCDC officials of the pertinent SED guidelines that relate to the deficiencies we identified.

To TCDC:

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.

Audit Scope, Objective, and Methodology

We audited the costs that TCDC reported on its CFR for the year ended June 30, 2014. The objective of our audit was to determine whether TCDC's reported costs were properly calculated, adequately documented, and allowable in accordance with SED's guidelines, including the RCM.

To accomplish our objective and assess internal controls related to our objective, we reviewed TCDC's 2013-14 CFR and financial statements. We interviewed TCDC officials and staff to obtain an understanding of their financial practices relating to the expenses reported on TCDC's CFR. We also interviewed SED officials and obtained an understanding of the CFR, as well as the policies and procedures contained in the RCM and CFR Manual. We reviewed a judgmental sample of Program costs. The sample included, but was not limited to, selected items only reimbursable in limited circumstances, such as travel expenses and gifts. To complete our audit work, we reviewed accounting records and supporting documentation for costs submitted by TCDC on its CFR, and made a determination of whether the costs complied with and were allowable costs per the RCM and CFR Manual.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

We provided a draft copy of this report to SED and TCDC officials for their review and formal comment. We considered their comments in preparing this report and have included them in their entirety at the end of it. In their responses, SED and TCDC officials agreed with our audit recommendations and indicated the actions they will take to address them.

Within 90 days of the 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, and where recommendations were not implemented, the reasons why.

Major contributors to this report were Ed Durocher, Brian Krawiecki, Rebecca Tuczynski, David Brickman, and Joseph Paduano.

We would like to thank the management and staff of SED and TCDC for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

Andrea Inman
Audit Director

cc: Suzanne Bolling, Director of Special Education Fiscal Services, SED
Thalia Melendez, Director of Audit Services, SED

Agency Comments - State Education Department



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

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November 4, 2016

Ms. Andrea Inman
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street – 11th Floor
Albany, NY 12236

Dear Ms. Inman:

The following is the New York State Education Department's (Department) response to the draft audit report, 2016-S-22, Compliance with the Reimbursable Cost Manual: The Child Development Council (TCDC).

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on TCDC's CFR and to TCDC's tuition reimbursement rates.

We agree with this recommendation. The Department will review the recommended disallowances, as noted in the report, and make adjustments to the reported costs to recover any overpayments, as appropriate, by recalculating tuition rates.

Recommendation 2: Remind TCDC officials of the pertinent SED guidelines that relate to the deficiencies we identified.

We agree with this recommendation. The Department will continue to provide technical assistance whenever requested and will strongly recommend that the TCDC officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual. In addition, Consolidated Fiscal Report (CFR) training is available at six locations across the State and online on the Department's webpage. The training is recommended for all individuals signing CFR certification statements, namely Executive Directors and Certified Public Accountants, and is required for preschool special education providers upon approval and reapproval. Furthermore, the Department intends to require that the training be mandatory for all providers.

If you have any questions regarding this response, please contact Suzanne Bolling, Director of Special Education Fiscal Services at (518) 474-3227.

Sincerely,

Sharon Cates-Williams

c: Christopher Suriano
Suzanne Bolling

Agency Comments - The Child Development Council, Inc.



Family Enrichment Network, Inc.

24 Cherry Street, Johnson City, NY 13790
Phone: 607-723-8313 Fax: 607-723-6173
info@familyenrichment.cc

October 20, 2016

Andrea Inman, Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236-001

Re: State Education Department
The Child Development Council, Inc./Report 2016-S-22
Compliance with the Reimbursable Cost Manual

Dear Ms. Inman,

We have reviewed the Draft Audit Letter for The Child Development Council, Inc. (TCDC) for the audit year 2013-14 as referenced above and appreciate the opportunity to comment on the findings.

Buildings

Condition

1. \$1,409 was disallowed for ineligible interest expense.
TCDC concurs with this finding and has taken action to ensure appropriate allocation of principle and interest in future CFR submissions.
2. \$3,985 was disallowed for space costs used for other programs.
Response: Due to various program needs, TCDC had several rooms moved following the 6/30/14 school year. Our accounting records did not adequately reflect the before and after snap shot of space. TCDC concurs with this finding and has taken action to ensure appropriate documentation of space costs going forward.

Food

Condition

1. \$2,742 was disallowed for mileage costs associated with food delivery to classrooms
Response: We concur that TCDC should have charged the Child and Adult Care Food Program for the mileage reimbursement for delivering food to children in the 9160 program.

2. \$867 was disallowed for food related to staff

Response: TCDC concurs with this finding and has taken action to ensure appropriate allocation of the expense in future CFR submissions.

Non-Reimbursable Consultant Costs

Condition

1. \$1,786 was disallowed for a direct care contractor who did not have a contract with TCDC. Additionally the contractor exceeded the allowable rate set by SED.

Response: TCDC concurs with this finding and has taken action to procure an appropriate contract with the provider.

2. \$551 was disallowed for a direct care contractor for hours spent on-site between therapy sessions.

Response: TCDC concurs with this finding and has taken action to procure an appropriate contract going forward with the provider that only includes direct service time.

Not Program Related

Condition

1. TCDC reported \$1,405 in expenses for direct care contractor that were for evaluation services.

Response: TCDC concurs with this finding and has taken action to ensure appropriate allocation in future CFR submissions.

2. \$687 in mileage for travel related to students not in our programs.

Response: **Response:** TCDC concurs with this finding and has taken action to ensure appropriate allocation in future CFR submissions.

3. TCDC reported \$217 in paint supplies for a room not assigned to one of our programs.

Response: Due to various program needs, TCDC had several rooms moved following the 6/30/14 school year. Our accounting records did not adequately reflect the before and after snap shot of space, therefore this paint charge appears to be for space not used by TCDC. TCDC concurs with this finding and has taken action to ensure appropriate documentation of space costs going forward which will resolve this issue.

Other Non- Reimbursable Costs

Condition

1. TCDC reported \$1,638 in costs that were not in compliance with RCM requirements.

Response:

TCDC concurs with this finding and has taken action to ensure appropriate documentation, payment timing and cost allocation in future CFR submissions.

Undisclosed Less than Arm's Length Relationship (LTAL)

Condition

1. TCDC reported \$1,412 in LTAL costs that were not disclosed on the CFR Schedule 5 nor was there documentation to verify that the costs were the actual costs the LTAL incurred.

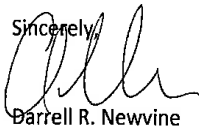
Response:

TCDC concurs with this finding and has taken action to ensure that any LTAL transactions are appropriately disclosed and supported with documentation that verifies that the LTAL has only charged actual costs.

We do not challenge the auditor's findings. We have already put systems in place to ensure that costs reported on annual CFRs fully comply with SED's requirements. We will have on-going communication with SED to obtain clarification as needed.

TCDC appreciates the professionalism and reasonableness of the audit team during the entire audit.

Sincerely,



Darrell R. Newvine
Executive Director

cc: Mary Ellen Elia, Commissioner, NYSED
Suzanne Bolling, NYSED
Thalia Melendez, NYSED