



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Compliance With the Reimbursable Cost Manual

**State Education Department
HTA of New York, Inc.**



Report 2016-S-36

December 2016

Executive Summary

Purpose

To determine whether the costs reported by HTA of New York, Inc. (HTA) on its Consolidated Fiscal Report (CFR) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (RCM). Our audit covered the fiscal year ended June 30, 2014.

Background

HTA is an SED-approved, for-profit special education provider located in Westchester County, New York. HTA provides preschool special education services to children with disabilities between the ages of three and five years. HTA is reimbursed for preschool special education services through rates set by SED. The reimbursement rates are based on financial information, including costs, that HTA reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with the RCM requirements. For the fiscal year ended June 30, 2014, HTA reported about \$2.7 million in reimbursable costs on its CFR for one rate-based preschool special education program: Preschool Special Education Itinerant Teacher (SEIT) services.

Key Findings

For the fiscal year ended June 30, 2014, we identified \$28,952 in ineligible costs that HTA reported on its CFR for the SEIT program. The ineligible costs included:

- \$22,207 in other than personal service costs, which consisted of \$15,813 that was not related to the SEIT program, \$3,678 that was not sufficiently supported, and \$2,716 that was otherwise not allowed; and
- \$6,745 in personal service costs, which consisted of \$4,065 in unsupported staff time, \$1,546 in employee compensation that was reported as more than one full-time equivalent on the CFR, and \$1,134 in other non-reimbursable costs.

Key Recommendations

To SED:

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

To HTA:

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

Other Related Audits/Reports of Interest

[Kidz Therapy Services, PLLC: Compliance With the Reimbursable Cost Manual \(2015-S-63\)](#)

[The ARC of Ulster-Greene: Compliance With the Reimbursable Cost Manual \(2015-S-60\)](#)

**State of New York
Office of the State Comptroller**

Division of State Government Accountability

December 15, 2016

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

Mr. Jeffrey Schechter
Chief Executive Officer
HTA of New York, Inc.
1053 Saw Mill River Road
Ardsley, NY 10502

Dear Ms. Elia and Mr. Schechter:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report, entitled *Compliance With the Reimbursable Cost Manual*, of our audit of the costs submitted by HTA of New York, Inc. to the State Education Department for purposes of establishing preschool special education tuition reimbursement rates. These rates are used to bill public funding sources that are supported by State aid payments. The 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 Section 4410-c of the State Education Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*

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This report is also available on our website at: www.osc.state.ny.us

Background

HTA of New York, Inc. (HTA) is a for-profit provider located in Westchester County, New York. HTA is authorized by the State Education Department (SED) to provide preschool special education services to children with disabilities between the ages of three and five years. For the fiscal year ended June 30, 2014, HTA offered one SED rate-based preschool special education program: Preschool Special Education Itinerant Teacher (SEIT) services. During the 2013-14 school year, HTA provided SEIT services to 288 students in Westchester, Rockland, Putnam, and Dutchess counties. HTA is managed by a Chief Executive Officer.

The counties that use HTA's preschool special education services pay tuition to HTA using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by HTA on its annual Consolidated Fiscal Reports (CFRs) that it submits to 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 year ended June 30, 2014, HTA reported about \$2.7 million in reimbursable costs for the SEIT program.

Audit Findings and Recommendations

According to the RCM, costs reported on the CFR are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and adequately documented. For the year ended June 30, 2014, we identified \$28,952 in costs that HTA reported on its CFR that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$22,207 in other than personal service (OTPS) costs and \$6,745 in personal service costs. The following table summarizes the ineligible costs we identified:

Reason for Disallowance	Disallowed Costs
OTPS Costs	
Non-Program-Related Costs	\$15,813
Insufficiently Documented Vehicle Costs	3,678
Non-Reimbursable Working Capital Interest	2,596
Non-Reimbursable Food	120
Subtotal OTPS Costs	\$22,207
Personal Service Costs	
Insufficiently Documented Compensation	\$4,065
Compensation Exceeding One FTE	1,546
Non-Program-Related Salary Costs	1,134
Subtotal Personal Service Costs	\$6,745
Total Disallowed Costs	\$28,952

Note: FTE = full-time equivalent.

Other Than Personal Service Costs

For the fiscal year ended June 30, 2014, we identified \$22,207 in OTPS costs that were ineligible for reimbursement because they either were not related to the SEIT program, were not sufficiently supported, or were otherwise not allowed under the RCM requirements.

Non-Program-Related Costs

According to the RCM, costs are considered for reimbursement if they are directly related to the special education program. We found HTA reported \$15,813 in costs on its CFR that were not related to the SEIT program. Specifically, HTA reported \$15,369 for lease expenses, repairs and maintenance, utilities, office supplies and equipment, and telephone expenses associated with an office in Manhattan that was only used for HTA's Early Intervention program. We also determined HTA reported \$352 for other telephone and equipment costs that were not related to the SEIT program, and \$92 for mileage and related expenses for employees who worked for other programs, such as Early Intervention.

Insufficiently Documented Vehicle Costs

According to the RCM, costs reported on the CFR are considered for reimbursement if they are adequately documented. We determined HTA reported \$3,678 in travel-related costs that did not have sufficient supporting documentation, as follows. We identified costs totaling \$3,365 for a lease, insurance, gas, and tolls related to a vehicle used by HTA's Chief Financial Officer. However, HTA did not maintain vehicle logs to support the costs as required by the RCM. We also identified \$313 for travel-related expenses for staff that were not supported by receipts or complete mileage logs.

Non-Reimbursable Working Capital Interest

The CFR Manual requires providers to submit CFRs no later than 120 days after the end of the reporting period, or no later than 150 days after the end of the reporting period with a pre-approved 30-day extension request. For July–June filers, such as HTA, the extended due date is December 1. Interest expense on working capital loans is reimbursable on a prorated basis if the CFR is submitted within 90 days after the due date. HTA requested and received an extension until December 1, 2014. However, HTA submitted its CFR on January 8, 2015, 38 days after the due date. Consequently, we determined \$2,596 in working capital interest was not eligible for reimbursement.

Non-Reimbursable Food

According to the RCM, the cost of food provided to staff is not reimbursable. However, we found HTA reported \$120 of ineligible costs related to food for staff.

Personal Service Costs

For the fiscal year ended June 30, 2014, we identified \$6,745 in personal service costs that were ineligible for reimbursement because they were either unsupported, beyond one full-time equivalent (FTE) for an individual employee, or not related to the SEIT program.

Insufficiently Documented Compensation

According to the RCM, compensation for personal services includes all salaries and wages, as well as fringe benefits and pension plan costs, and must be based on approved, documented payrolls. Additionally, program and agency administration staff compensation must be supported by time and effort reports or equivalent documentation. We found HTA reported compensation expenses of \$4,065 on its CFR that were ineligible for reimbursement because they were not sufficiently supported. HTA reported the cost of health insurance premiums, paid on behalf of the Chief Executive Officer. However, HTA did not maintain time records or any other time and effort reports to support this reported compensation expense as required by the RCM.

Compensation Exceeding One Full-Time Equivalent

According to the RCM, reimbursement for compensation of individual non-direct care staff is limited to one FTE per person. We found that HTA reported compensation expenses exceeding one FTE for three employees on its CFR. As a result, we determined the non-reimbursable portion of the excess personal service costs totaled \$1,546 (\$1,380 in salary and \$166 in associated fringe benefits).

Non-Program-Related Salary Costs

According to the RCM, costs will be considered for reimbursement provided such costs are directly related to the special education program. We determined HTA reported salary expenses of \$1,134 that were not related to the SEIT program. The ineligible costs were for teachers who provided services to other programs, including the Early Intervention and school-age programs. These expenses should have been directly charged to their respective programs and not the SEIT program. Therefore, they are not reimbursable.

Recommendations

To SED:

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

To HTA:

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 and Methodology

We audited the costs HTA reported on its CFR for the fiscal year ended June 30, 2014. The objective of our audit was to determine whether the reported costs were allowable, properly calculated, and adequately documented in accordance with applicable SED requirements.

To accomplish our objective and assess internal controls related to our objective, we reviewed the RCM as well as the CFR Manual and its related appendices. We also became familiar with HTA's internal controls as they related to costs it reported on the CFR. We reviewed HTA's CFR and relevant financial records. We interviewed HTA officials and staff to obtain an understanding of their financial practices relating to the costs reported on HTA's CFR. We also reviewed a judgmental sample of program costs that included selected items considered high risk, such as

property and vehicle costs, costs that appeared to be related to other programs, and costs that are only reimbursable in limited circumstances, such as food.

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.

Authority

The 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 Section 4410-c of the State Education Law.

Reporting Requirements

We provided a draft copy of this report to SED and HTA 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, 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 if the recommendations were not implemented, the reasons why.

Contributors to This Report

Andrea Inman, Audit Director
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Division of State Government Accountability

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Exhibit

HTA of New York, Inc.
Schedule of Submitted and Disallowed Program Costs
for the Fiscal Year Ended June 30, 2014

Program Costs	Amount Per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services	\$2,480,068	\$6,745	\$2,473,323	A, B, E
Other Than Personal Services	178,896	22,207	156,689	A, C, D, F,G
Total Program Costs	\$2,658,964	\$28,952	\$2,630,012	

Notes to Exhibit

The following Notes refer to specific sections of the RCM and the CFR Manual that we used as a basis for our recommended disallowances. We summarized the applicable sections to explain the basis for each disallowance. We provided the details supporting our recommended disallowances to SED and HTA officials during the course of the audit.

- A. RCM Section II: Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and are sufficiently documented. Such reimbursable costs will be included in the calculation of tuition rates up to any limits or cost parameters approved annually in the rate-setting methodology.
- B. RCM Section II.13.A.4.d: Compensation beyond one FTE for non-direct care staff, owners, or related parties will not be considered reimbursable in the calculation of tuition rates.
- C. RCM Section II.22.C: Costs of food provided to staff, including lunchroom monitors, are non-reimbursable.
- D. RCM Section II.28.D.3: Interest expense on working capital loans for late filers of required financial information will be reimbursed on a prorated basis if submitted within 90 days of the respective due date.
- E. RCM Section III.1.A: Compensation costs must be based on approved, documented payrolls. The allocation of compensation must be supported by time and effort reports or equivalent documentation.
- F. RCM Section III.J.2: Vehicle use must be documented with individual vehicle logs that include at a minimum: the date, time of travel, to and from destinations, mileage between each, purpose of travel, and name of traveler.
- G. CFR Manual Section 4: All service providers must submit their completed CFRs to the applicable funding State Agency(ies) no later than 120 days after the end of the reporting period. If a pre-approved extension request form has been submitted, the due date is no later than 150 days after the end of the reporting period. A 30-day extension beyond the initial due date will be granted to service providers submitting the Consolidated Fiscal Report (CFR) Pre-Approved 30-Day Extension Request form. The appropriate Full, Abbreviated, Article 28 Abbreviated or Mini-Abbreviated CFR submission type must still be submitted no later than the applicable Pre-Approved 30-Day Extension due date (June 1st for calendar filers or December 1st for July–June filers).

Agency Comments - State Education Department



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

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December 2, 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-36, Compliance with the Reimbursable Cost Manual: HTA of New York, Inc. (HTA).

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on HTA's CFR and to HTA'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 HTA 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 HTA 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 - HTA of New York, Inc.



Ms. Andrea Inman
Audit Director
State of New York
Office of The state Comptroller
110 State Street
Albany, NY 12236

November 30, 2016

Dear Ms. Inman,

HTA of New York has received and reviewed the draft audit report "2016-S-36" of our preschool Special Education program based on the Consolidated Fiscal Report for the school year ending 6/30/2014.


The OSC identified \$28,952 in costs that HTA reported on its CFR that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$22,207 in other than personal service (OTPS) costs and \$6,745 in personal service costs.

HTA's Response

HTA agrees with these findings. In response to these findings HTA has reviewed the Reimbursable Cost Manual to ensure proper compliance to SED's requirements. HTA has reached out to independent consultants and will work with them in ensuring the correct expenses are allocated to the proper program and stated correctly on the Certified Financial Report.

We appreciate the courteous and professional manner in which the auditors conducted their audit with us.

Sincerely,



Jeff Schechter
Executive Director