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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 13, 2000

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

Re: Report 2000-F-12

Dear Mr. Hayden:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by State Education Department (Department) officials as of June 27, 2000 to implement the recommendations contained in our audit report, *State Education Department: Transportation of Preschool Children with Disabilities* (Report 97-S-52). Our report, which was issued on February 26, 1999, examined the transportation costs and practices of counties statewide (excluding New York City) and the Department's monitoring of such costs and practices.

Background

The Preschool Handicapped Education Program (program) was established to provide special education services to three and four year-old children with disabilities. Although the school districts evaluate and place children with disabilities, officials of a child's county of residence are responsible for contracting with approved preschool providers, as elected by the local board of education, for the special education services the child needs. County officials are also responsible for providing, directly or by contract with the lowest responsible bidder, each child's transportation.

For the 1998-99 school year, the costs for preschool handicapped education totaled \$784.6 million, of which \$235.2 million (or 30 percent) was for transportation (as reported by the Department as of April 7, 2000). The State, through the Department, reimburses the counties for 59.5 percent of their overall program costs, including costs for transportation. During the 1998-99 year, about 58,000 children were enrolled in preschool handicapped education programs. The number of children in preschool handicapped education programs has increased by 82 percent since the 1991-92 school year. Likewise, the costs of preschool handicapped education, including transportation, have also increased significantly over that

period. In fact, through the 1998-99 year, annual transportation costs increased by \$169.7 million (or 259 percent) over the costs (\$65.5 million) reported for the 1991-92 year.

Summary Conclusions

In our original audit, we found that counties operated their transportation programs for disabled preschool children autonomously, with little coordination with other counties or the Department. As a result, transportation costs and practices varied significantly among the counties, and some counties may not have operated their programs as efficiently as possible. For example, for the 1994-95 regular school session, transportation costs per child for the center-based facilities ranged from \$859 in Seneca County to \$6,349 in Franklin County. Thus, we concluded that the Department needed to do more to assist the counties to improve their practices.

In our follow-up review, we found that the Department had made some progress in implementing our recommendations. For example, New York City and five counties are now able to submit aid claims and other data for the transportation of preschool children with disabilities through the Internet.

Nonetheless, the Department had fully implemented only one of our prior report's recommendations. In general, Department officials indicated that they remained committed to implementing the report's recommendations. However, at the time of our follow-up review, they were in the process of hiring additional professional staff to provide the resources necessary to begin implementing the recommendations.

Summary of Status of Prior Audit Recommendations

Of the nine prior audit recommendations, Department officials had implemented one recommendation, partially implemented three recommendations, and not implemented five recommendations.

Follow-up Observations

Recommendation 1

Provide leadership and guidance to counties regarding transportation practices. To do this, meet periodically with county officials and other involved parties with the goal of improving county transportation practices and, if necessary, proposing statutory and/or regulating changes. Such meetings should result in:

- a. *Written material that would define conditions and/or rules that must be followed in order to claim transportation aid for this program (e.g., rebidding at the end of the contract period, discouraging such practices as restrictive specifications, and use of aides);*

- b. A best practices document related to transporting preschool students including cost savings techniques, innovative practices, etc.; and
- c. Periodic reviews of new or innovative practices in transporting preschool students including cost savings measures.

Status - Not Implemented

Agency Action - Department officials advised us that there was still a need to: establish a best practices work group; perform data analysis to identify the higher cost/higher risk counties; and prepare written guidance to assist counties to administer their programs and submit claims. In addition, officials noted that they plan to have Department staff work with the State Association of Counties on a time and distance study of the transportation routes used for preschool children with disabilities. Officials added that the Department had the approvals of the Division of the Budget and the Department of Civil Service to hire four associate (G-23) accountants to help provide the resources needed to perform the functions addressed by the recommendation. Subsequent to the start of our follow-up review (in May 2000), officials completed interviews of candidates for two of the associate accountant positions and anticipated that the new staff would begin work soon. Officials further indicated that they planned to fill the remaining two associate items within the following six to eight months.

Recommendation 2

Based on workload risk assessments, allocate some efforts to reviewing the cost differentials between counties for transportation services and determine the reasons, if possible for such differentials.

Status - Not Implemented

Agency Action - See agency actions, as detailed in recommendation number 1, which explain staffing limitations.

Recommendation 3

Based on workload risk assessments, allocate some efforts to the performance of a transportation claims review auditing process on a random or exception basis.

Status - Not Implemented

Agency Action - See agency actions, as detailed in recommendation number 1, which explain staffing limitations.

Recommendation 4

Advise counties that local preference laws may tend to limit competition and could be contrary to the General Municipal Law.

Status - Not Implemented

Agency Action - Department officials indicated that they still concurred with the recommendation. They further advised that the guidance prescribed by the recommendation would be included in the reimbursable cost manual to be developed for distribution to the counties. (Also, see agency action corresponding to recommendation number 6.)

Recommendation 5

Ensure that established regional transportation ceiling rates reimburse reasonable costs and do not reward inefficiencies.

Status - Partially Implemented

Agency Action - Officials advised us that the Department and the Division of the Budget developed tentative regional transportation ceiling rates, based on costs and student counts for the 1995-96 year, for the first time for the 1997-98 year. However, the Department is currently working with the Division of the Budget to finalize these rates, using actual 1997-98 data. Officials stated that this process will help ensure that the rates are reasonable and do not reward inefficiencies. Officials further indicated that the work to be performed by the new associate accountants will also help to implement the recommendation. Officials intend to have the 1997-98 rates finalized by August 2000.

Recommendation 6

Provide guidelines to counties for allowable transportation costs and appropriate administrative costs.

Status - Not Implemented

Agency Action - Department officials indicated that they were committed to developing a manual that detailed allowable (reimbursable) costs for the transportation of preschool children with disabilities. Officials added, however, that the preparation of this manual is predicated on the Department hiring the new associate accountants who will provide the required resources, as previously detailed.

Recommendation 7

Study alternatives to the requirement that counties currently have to track and submit child specific transportation costs and propose statutory changes as necessary.

Status - Partially Implemented

Agency Action - Officials indicated that the Department has informally addressed this recommendation.

Specifically, Department officials have discussed the matter with legislative staff. In response, legislative staff verbally advised Department officials that the Education Law does provide the Department with the statutory flexibility to institute a different cost reimbursement methodology than is currently in use. Nonetheless, given language which currently exists in the pertinent sections of the Education Law and Family Court Act, Department officials still question whether the Department has the legal authority to permit counties to use a more simplified (non-child specific) methodology to claim transportation reimbursements. Officials advised us that they would prefer counties to report transportation costs and make related claims based on total costs because it would reduce the administrative burden for both Department and county officials. However, although there have been some discussions among Department officials and legislative staff on this matter, officials have not formally addressed the matter (through letters, memos, etc.) with the parties involved.

Recommendation 8

Determine if it would be beneficial to State taxpayers, counties, the State Department of Health (DOH) and the Department, to jointly develop an electronic processing system.

Status - Partially Implemented

Agency Action - Department officials have informally analyzed the issue pertaining to this recommendation.

They concluded that the differences between the information systems for the Department's Preschool Program for Children with Disabilities and DOH's Early Intervention Programs are too great to facilitate a systems merger at this time, given the overall demands on the Department's computer systems resources. Officials also indicated that the Department and DOH staff have discussed the possibility of establishing a systems interface that would enhance record keeping by tracking the progression of children from the Early Intervention Program to the Preschool Program through the use of a distinct identification number for each child. Officials further indicated, however, that there has not been a formal analysis of the issue or formal communication with DOH on the matter.

Recommendation 9

Move as quickly as is reasonably possible to develop the electronic processing system to make the Preschool Handicapped Transportation Aid process quicker and more efficient.

Status - Implemented

Agency Action - Department officials believe that electronic processing will be used for the great majority of children statewide for whom Preschool Handicapped Transportation Aid is claimed. According to officials, New York City and Erie, Essex, Schenectady, Suffolk, and Wyoming Counties currently submit their information for the program electronically. Officials also indicated that Westchester, Orange, and Nassau Counties have been negotiating with software vendors to develop the capability to submit data electronically as well. As such, the Department anticipates that these counties will be submitting data electronically in the near future. Further, in the long-term, officials believe that they will be able to encourage additional counties (other than those previously detailed) to submit data electronically also.

The major contributor to this report was Brian Mason.

We would appreciate your response to this report within 30 days, indicating any actions planned or taken to address any unresolved matters discussed in this report. We also thank Department management and staff for the courtesies and cooperation they extended to us during this review.

Very truly yours,

Jerry Barber
Audit Director

cc: Charles Conaway