

THOMAS P. DINAPOLI  
COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

December 3, 2015

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

Ms. Mary Boatfield  
President  
United Cerebral Palsy Association of the Rochester Area, Inc.  
3399 Winton Avenue South  
Rochester, NY 14623

Re: Compliance With the Reimbursable Cost  
Manual  
Report 2014-S-75

Dear Ms. Elia and Ms. Boatfield:

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 United Cerebral Palsy Association of the Rochester Area, Inc. (UCP Rochester) 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**

UCP Rochester, a not-for-profit organization located in Rochester, New York, is an SED-approved provider of preschool special education services. UCP Rochester provides these services to children with disabilities who are between the ages of three and five years. In 2013, UCP Rochester provided preschool special education services to about 90 children from 16 school districts located in Monroe and Ontario counties in western New York. The SED rate-based preschool programs included in our audit scope were Special Education Itinerant Teacher services and Preschool Integrated Special Class – 2.5 hours per day (collectively referred to as the Programs).

The counties that use UCP Rochester's preschool special education services pay tuition 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 UCP Rochester on its annual Consolidated Fiscal Reports (CFRs) 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 meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the year ended December 31, 2013, UCP Rochester reported about \$1.7 million in reimbursable costs on its CFR for the Programs.

### **Results of Audit**

According to SED guidelines, costs reported on the CFR should be reasonable, necessary, directly related to the special education program, and properly documented. For the year ended December 31, 2013, we identified \$6,634 in costs charged to the Programs that did not comply with SED's requirements for reimbursement. The non-reimbursable costs included: \$2,210 in ineligible bonuses and associated fringe benefits; \$1,681 for inappropriate consultant services; and \$2,743 in other than personal service (OTPS) costs that were either not allowed, not directly related to the Programs, or not properly documented. In addition to the non-reimbursable costs, we also questioned the appropriateness of \$1,544 in costs for consultant services that did not comply with bidding requirements outlined in the RCM.

#### ***Bonuses***

According to the RCM, bonus compensation is a non-recurring and non-accumulating (i.e., not included in the base salary of subsequent years) lump sum payment in excess of regularly scheduled salary that is not directly related to hours worked. To be reimbursable, bonus compensation must be based on merit, as measured and supported by employee performance evaluations. However, we identified bonus-related costs totaling \$2,210 (\$1,905 in direct payments and \$305 in associated fringe benefits) that were allocated to the Programs but were not based on or supported by the required employee performance evaluations.

#### ***Consultant Services***

We identified \$1,681 in costs for technology services that did not meet RCM requirements for reimbursement. According to the RCM, unless otherwise approved by SED, only actual costs for contracts that are less-than-arm's-length are reimbursable. Since 2004 UCP Rochester has contracted with Center Information Services, Inc. (CIS) for information technology support services. On its 2013 financial statements, UCP Rochester disclosed an investment interest in CIS. Also, UCP Rochester's President holds a position on CIS's Board of Directors. The relationship between UCP Rochester and CIS was properly disclosed as less-than-arm's-length on the CFR. However, according to CIS's Form 990 (the annual IRS information return for tax-exempt organizations), services were provided to UCP Rochester at fair market value, and not at cost. UCP Rochester allocated \$36,954 in CIS costs to the Programs. Of this amount, \$1,681 was in excess of CIS's actual costs and, consequently, not reimbursable.

### ***Other Than Personal Service Costs***

We reviewed UCP Rochester's OTPS costs reported on its 2013 CFR and identified non-reimbursable costs totaling \$2,743. Specifically, we found the following:

- \$1,594 in costs that lacked receipts and other necessary supporting documentation;
- \$723 for administrative expenses such as policy reviews and risk assessments that were incorrectly charged to the Programs as direct expenses;
- \$338 for food and beverages provided to staff (according to the RCM, the cost of food provided to any staff is not reimbursable); and
- \$88 for gifts and flowers for staff (according to the RCM, gifts of any kind are not reimbursable).

### ***Questionable Costs***

We identified \$1,544 in questionable costs for audit services that were not selected through a competitive bidding process. According to the RCM, to ensure the most economical and/or appropriate consultant is selected, services should be procured through solicitation of competitive bids. Professional services must be acquired through competitive bidding at least once every five years, and Requests for Proposals (RFPs) and other bidding documentation must be kept on file. UCP Rochester has contracted with The Bonadio Group (Bonadio) for accounting and auditing services since 1987. However, UCP Rochester has not issued RFPs or obtained bids for the services provided by Bonadio. Absent competitive bids, it is unclear whether UCP Rochester obtained the best price or whether the services were the most economical and/or appropriate.

UCP Rochester claimed costs of \$58,355 on its 2013 CFR, including \$1,544 that was allocated to the Programs, for services provided by Bonadio. UCP Rochester officials provided information on audit fees paid by seven other not-for-profit entities in New York State. Using this information, we determined that the hourly rates paid by UCP Rochester resulted in \$13,550 of additional costs compared with the hourly rates paid by a similar organization in the same region. Accordingly, we question the appropriateness of the \$1,544 allocated to the Programs.

### **Recommendations**

#### **To SED:**

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

#### **To UCP Rochester:**

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements.

## **Audit Scope, Objective, and Methodology**

We audited the expenses submitted by UCP Rochester on its CFR for the year ended December 31, 2013. The objective of our audit was to determine whether the costs submitted by UCP Rochester on its CFR were properly calculated, adequately documented, and allowable under SED's guidelines, including the RCM.

To accomplish our objective and assess internal controls related to our objective, we reviewed UCP Rochester's 2013 CFR and corresponding financial records. We interviewed UCP Rochester officials and staff to obtain an understanding of their financial practices relating to the expenses reported on the CFR. We also interviewed SED officials to obtain an understanding of the CFR and the policies and procedures contained in the RCM and CFR Manual. We judgmentally selected and reviewed a sample of costs submitted by UCP Rochester on its CFR. Our sample included high-cost contract expenses as well as selected items only reimbursable in limited circumstances, such as food, supplies, and employee bonuses.

We conducted our performance audit in accordance with generally accepted government auditing standards. These 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 (some of whom have minority voting rights) to certain boards, commissions, and public authorities. 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 UCP Rochester 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 where recommendations were not implemented, the reasons why.

Major contributors to this report were David Fleming, Chris Morris, Jennifer Habib, Bruce Brimmer, and Joe Paduano.

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

Sincerely,

Andrea Inman  
Audit Director

cc: Andrew Fischler, Audit Manager - Office of Audit Services, SED  
Suzanne Bolling, Director of Special Education Fiscal Services, SED

# Agency Comments - State Education Department



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

DEPUTY COMMISSIONER  
Office of Performance Improvement and Management Services  
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November 5, 2015

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

Dear Ms. Inman:

The following is the New York State Education Department's (Department) response to the draft audit report, 2014-S-75, Compliance with the Reimbursable Cost Manual: United Cerebral Palsy Association of the Rochester Area, Inc. (UCP Rochester).

**Recommendation 1: Review the disallowances and questionable costs identified by our audit and, if warranted, make the necessary adjustments to UCP Rochester's reimbursement rates.**

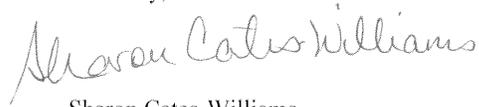
We agree with this recommendation. The Department will review the recommended disallowances as noted in the report and make adjustments to the reported costs to recover any overpayments, as appropriate, by recalculating tuition rates.

**Recommendation 2: Remind UCP Rochester 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 UCP Rochester 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,

A handwritten signature in cursive script that reads "Sharon Cates-Williams".

Sharon Cates-Williams

c: James P. DeLorenzo  
Suzanne Bolling

# Agency Comments - United Cerebral Palsy Association of the Rochester Area, Inc.



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Mary Walsh Boatfield  
President

October 20, 2015

Andrea Inman  
Audit Director  
Office of the State Comptroller  
State of New York  
110 State Street  
Albany, NY 12236

Re: Report 2015-S-75

Dear Ms. Inman:

We received the draft report for the 2013 preschool fiscal audit performed by your office on United Cerebral Palsy Association of the Rochester Area, Inc. on October 13, 2015 via email. There were three areas of findings totaling \$6,634; consultant services over fair market value, items classified as non-reimbursable and errors or items with missing documentation.

For the consultant services, we agree with the draft audit findings and will perform a similar calculation when completing the future CFRs.

For the items defined as non-allowable, we agree with the draft audit findings. Prior to your audit we made a concerted effort to review our systems and made some changes that address these areas. We implemented a new performance review process that will give a score to our employees that will be used when determining the employee's eligibility for any potential bonus payment. In addition, we classify food, gifts and meeting expenses as non-allowable expenses on the CFR-1 and CFR-3 or reported as other on CFR-5.

For the items described as lacking documentation or incorrectly allocated, we work diligently to avoid these types of errors but will continue to increase our efforts.

We would like to thank the audit team performing this review for their diligence and professionalism in conducting this audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Mary Boatfield".

Mary Boatfield  
President

## Opening Doors...Changing Lives

Accessible Home Renovations | Assistive Technology Services | Augustin Children's Center | Community Recreation Services | Family Dental Center  
Habilitation Services | Individual Health Services | Individual & Family Support Services | Adult & Pediatric Therapy Services | Residential Services

AI Sigi Community of Agencies Member Affiliate Member of the NYS CP Association