

THOMAS P. DINAPOLI  
COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

December 27, 2018

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

Ms. Ouida Toutebon  
Executive Director  
Head Start of Rockland, Inc.  
117 U.S. 9W  
Haverstraw, NY 10927

Re: Compliance With the Reimbursable Cost  
Manual  
Report 2018-S-25

Dear Ms. Elia and Ms. Toutebon:

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 Head Start of Rockland, Inc. (HSOR) 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**

HSOR is an SED-approved, not-for-profit special education provider located in Rockland County, New York. HSOR provides preschool special education services to children with disabilities who are between three and five years of age. For the fiscal year ended June 30, 2015, HSOR offered two rate-based preschool special education programs: Preschool Special Education Itinerant Teacher Services and Preschool Integrated Special Class – over 2.5 hours per day (collectively referred to as the Programs). During the 2014-15 school year, HSOR provided these special education services to 41 preschool students from five school districts located in Rockland County. HSOR also offers a range of other programs, including Head Start, universal pre-kindergarten, and child care.

Rockland County pays tuition to HSOR using reimbursement rates set by SED. The State, in turn, reimburses the county 59.5 percent of the special education tuition that it pays. SED sets the special education tuition rates based on financial information, including costs, reported by HSOR on the annual Consolidated Fiscal Report (CFR) that it submits to SED. Costs reported on the CFR must comply fully with the guidelines of SED's Reimbursable Cost Manual (RCM) regarding the eligibility of costs and documentation requirements, and must meet the reporting requirements prescribed by the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2015, HSOR reported \$869,436 in reimbursable costs for the Programs on its CFR.

### **Results of the Audit**

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 fiscal year ended June 30, 2015, we identified \$7,958 in reported costs that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$6,841 in personal service costs and \$1,117 in other than personal service (OTPS) costs.

#### ***Personal Service Costs***

According to the RCM, entities operating programs must use allocation methods that are fair and reasonable. Such allocation methods, as well as the statistical basis used to calculate allocation percentages, must be documented and retained for a minimum of seven years. HSOR was unable to provide sufficient support for the methodology used in the allocation of its Site Directors' salaries. As such, we reallocated these salaries using SED's ratio value method, and determined \$6,841 (\$5,466 in salaries and \$1,375 in associated fringe benefits) was inappropriately allocated to the Programs.

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

According to the RCM, costs associated with program-related staff travel are reimbursable as long as travel is documented in travel logs, including the date and time of travel, destination, mileage, and purpose of travel. In addition, costs for food provided to any staff, including food and beverages for meetings, are not reimbursable. Finally, costs should be reasonable, necessary, and directly related to the Programs. We identified \$1,117 in OTPS costs reported by HSOR that were ineligible for reimbursement because they were not in compliance with these RCM requirements. The ineligible costs included:

- \$596 in unsupported staff travel costs;
- \$464 in food for staff; and
- \$57 in other non-reimbursable costs.

## **Recommendations**

### **To SED:**

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

### **To HSOR:**

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 HSOR reported on its CFR for the fiscal year ended June 30, 2015. 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, we reviewed the RCM that applied to the year we examined as well as the CFR Manual and its appendices. We also evaluated the internal controls over the costs claimed on, and schedules prepared in support of, the CFR submitted to SED. We interviewed SED officials to obtain an understanding of the CFR as well as the policies and procedures contained in the RCM and the CFR Manual. We also interviewed HSOR personnel to obtain an understanding of their financial practices relating to the costs reported on the CFR. We reviewed HSOR's CFR for the audit period and obtained accounting records and supporting information for our review of a judgmental sample of personal service and OTPS costs that were considered high risk and reimbursable in limited circumstances, such as food, advertising, and travel costs. Based on our sample design, we cannot project our results to the population as a whole.

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 HSOR 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 SED's response, officials agreed with the audit recommendations and indicated the actions they will take to address them. In HSOR's response, officials disagreed with the recommended audit disallowance of \$6,841 in personal service costs. Our response to HSOR's comments are included in the report's State Comptroller's Comment.

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, Laurie Burns, Stephon Pereyra, Lisa Dooley, Adriane Inman, and Joe Southworth.

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

Sincerely,

Andrea Inman  
Audit Director

cc: Harold Matott, SED  
James Kampf, SED  
Karla Ravida, 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  
O: 518.473-4706  
F: 518.474-5392

December 18, 2018

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 (SED) response to the draft audit report, 2018-S-25, Compliance with the Reimbursable Cost Manual: Head Start of Rockland, Inc. (HSOR).


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

We agree with this recommendation. SED 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 HSOR officials of the pertinent SED requirements that relate to the deficiencies we identified.

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the HSOR officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual (RCM). Furthermore, CFR training is available online on SED's webpage. SED recommends that all individuals signing the CFR certification statements, namely Executive Directors and Certified Public Accountants, complete this training. This training is a requirement for preschool special education providers upon approval and reapproval.

If you have any questions regarding this response, please contact James Kampf at (518) 474-3227.

Yours truly,  
  
Sharon Cates-Williams  
Deputy Commissioner

c: Karla Ravida  
Christopher Suriano  
Suzanne Bolling  
Harold Matott

# Agency Comments - Head Start of Rockland, Inc.



OUIDA FOSTER TOUTEBON  
Executive Director

HEAD START OF ROCKLAND, INC.  
117 Route 9W  
Haverstraw, New York 10927-1404  
Tel: 845-429-4122  
Fax: 845-429-4133  
E-Mail [info@headstartofrockland.org](mailto:info@headstartofrockland.org)  
[www.headstartofrockland.org](http://www.headstartofrockland.org)



December 7, 2018

Andrea Inman  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236-0001

Re: Compliance with the Reimbursable Cost Manual  
Draft Report 2018-S-25

Dear Ms. Inman:

We are in receipt of the Draft Report (2018-S-25) dated November 16, 2018. Please accept this letter as our response to the audit findings concerning the expenses submitted on our Consolidated Fiscal Report (CFR) for the fiscal year ended June 30, 2015, for the two rate-based preschool special education programs: Preschool Special Education Itinerant Teacher Services and Preschool Integrated Special Class.

Personal Service Costs:

Many of Head Start of Rockland, Inc.'s (HSOR) employees' functions benefit more than one program. As such, we allocate these staff's costs based on the methodology deemed most appropriate. Our Site Directors oversee their respective schools and ensure all programs run smoothly in their buildings, including Head Start, UPK, and Special Education. Site Directors, as well as other employees, complete Personnel Activities Reports (PAR's) every pay period to document how they spend their time. Their allocation percentages are determined based on a Time Study of these PAR's. We strongly believe this is a reasonable allocation methodology and should be accepted by the State Education Department (SED).

* Comment 1
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\*See State Comptroller's Comment, Page 9.

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Comment  
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In addition, HSOR does not agree with the alternate allocation methodology used by the audit team to determine the amount of unsupported cost, namely the ratio value method. The ratio value method, stated in the SED's Reimbursable Cost Manual (RCM) Appendix I Section 42.0, should be used for "Allocation of Total Administration Costs to Program/Sites". We consider our Executive Director, the Fiscal Department, and the HR Department as Administration Cost. Our Site Directors, who work directly in the program with our children and their families, are considered Program Cost. Hence, we use the Shared Staff/Time Studies method of allocation stated in the RCM Appendix I Section 43.0.

The salaries and fringe benefits of our Site Directors are allocated based on this acceptable method. HSOR requests that this potential disallowance be reconsidered, and the Final audit report be amended accordingly.

Travel Costs:

Although HSOR did maintain logs documenting the usage of vehicles and fuel, a few of the necessary data was in fact missing. Management has since implemented a new travel log that includes all required information as per the guidelines of the RCM. We have taken this comment into consideration and have improved our documentation process.

Water Costs:


The "cost for food" mentioned in the draft report is specifically related to drinking water. HSOR's stance is that the tap water in Rockland County is not suitable for drinking. If the cost of water is deemed unacceptable to the SED, we will find other sources of funding to cover it going forward.

Other Non-Reimbursable Costs:

The \$57 of other ineligible costs identified was simply due to human error in recording. Despite limited resources, HSOR will add to our review process in order to mitigate the risk of future errors.

We appreciate the opportunity to provide feedback to the auditors' findings and attest that all funding received were used to provide quality programming to the children we serve.

Sincerely,

  
Ouida Foster Toutedon  
Executive Director

  
Y. Tina Chan  
Fiscal Director

cc: Tara Gales, Board of Directors President of HSOR  
MaryEllen Elia, Commissioner of SED  
Harold Matott, SED  
James Kampf, SED  
Karla Ravidia, SED



## State Comptroller's Comment

1. Contrary to HSOR's assertions, officials failed to provide sufficient support for the methodology used in the allocation of its Site Directors' salaries. The RCM specifies that entities must use allocation methodologies that are fair and reasonable, and that the basis used to calculate allocation percentages must be documented and retained for a minimum of seven years. Absent sufficient supporting documentation from HSOR to determine if the methodology and resulting cost allocations were fair and reasonable, we reallocated the Site Directors' salaries using the SED ratio value allocation method. Based on this recalculation, we maintain that \$6,841 in salaries and fringe benefits was inappropriately allocated to the Programs.