New York State Comptroller
THOMAS P. DiNAPOLI

Family and Educational Consultants - Compliance With the Reimbursable Cost Manual

State Education Department

Report 2018-S-29| May 2019

Spotlight on Education

Audit Highlights

Objective

To determine whether the costs reported by Family and Educational Consultants (FEC) on its Consolidated Fiscal Reports (CFR) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (RCM). The audit covered expenses reported on FEC's CFR for the fiscal year ended June 30, 2015 and certain expenses reported on FEC's CFRs for the two fiscal years ended June 30, 2014.

About the Program

FEC is an SED-approved, for-profit special education provider located in Ulster County. FEC provides preschool special education services to children with disabilities who are between three and five years of age. FEC is reimbursed for these services through rates set by SED. The reimbursement rates are based on financial information, including costs, that FEC reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with the RCM requirements. For the three fiscal years ended June 30, 2015, FEC reported approximately $1.1 million in reimbursable costs on its CFRs for the preschool Special Education Itinerant Teacher services (referred to as the Program) that it provided.

Key Findings

For the three fiscal years ended June 30, 2015, we identified $161,956 in ineligible costs that FEC reported on its CFRs for the Program. The ineligible costs included $96,006 in personal service costs and $65,950 in other than personal service costs, as follows:

- $73,902 in salary costs for five office workers and the Executive Director that were improperly charged directly to the Program, and $22,104 for one teacher who did not work in the Program;
- $47,273 in agency administration costs that were improperly charged directly to the Program;
- $12,200 for costs that were unrelated to the Program, food for meetings and for staff, gifts, bank charges and late fees, and certain unsupported costs; and
- $6,477 in working capital interest.

Key Recommendations

To SED:

- Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on FEC's CFRs and to FEC's tuition reimbursement rates.

- Remind FEC officials of the pertinent SED requirements that relate to the deficiencies we identified.

To FEC:

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

Office of the New York State Comptroller
Division of State Government Accountability

May 16, 2019

Ms. MaryEllen Elia	Ms. Claudia Stedge
Commissioner	Executive Director
State Education Department	Family and Educational Consultants
State Education Building	268 West Saugerties Road
89 Washington Avenue	Saugerties, NY 12477
Albany, NY 12234	

Dear Ms. Elia and Ms. Stedge:

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 Family and Educational Consultants to the State Education Department for the purpose of establishing the preschool special education tuition reimbursement rates 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,

Division of State Government Accountability

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Glossary of Terms

Abbreviation	Description	Identifier
CFR	Consolidated Fiscal Report	*Key Term*
CFR Manual	Consolidated Fiscal Reporting and Claiming Manual	*Policy*
FEC	Family and Educational Consultants	*Service Provider*
OTPS	Other than personal service	*Key Term*
Program	Preschool Special Education Itinerant Teacher services	*Key Term*
RCM	Reimbursable Cost Manual	*Policy*
SED	State Education Department	*Auditee*

Background

Family and Educational Consultants (FEC) is a for-profit organization located in Ulster County, New York. FEC is authorized by the State Education Department (SED) to provide, among other programs, preschool special education services to children with disabilities who are between three and five years of age. During our audit period, FEC provided preschool Special Education Itinerant Teacher services (referred to as the Program) to 92 children with special education needs from Albany, Columbia, Dutchess, Greene, and Ulster counties.

The counties that use FEC's preschool special education services pay tuition to FEC using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition paid. SED sets the special education tuition rates based on financial information, including costs, reported by FEC on the annual Consolidated Fiscal Report (CFR) 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 three fiscal years ended June 30, 2015, FEC reported approximately $1.1 million in reimbursable costs for the Program on its CFRs.

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 three fiscal years ended June 30, 2015, we identified $161,956 in costs that FEC reported on its CFRs that did not comply with SED's requirements for reimbursement. The ineligible costs included $96,006 in personal service costs and $65,950 in other than personal service (OTPS) costs. A summary of the ineligible costs is presented in the Exhibit at the end of this report.

Personal Service Costs

For the three fiscal years ended June 30, 2015, we identified a total of $96,006 in personal service costs that FEC reported on its CFRs that were not allowable under SED's requirements.

Employee Salary Costs

According to the RCM, the salaries of employees who perform tasks for more than one program or entity must be allocated among all such programs or entities. Further, the RCM defines agency administration costs as those expenses that are not directly related to a specific program but are attributable to the agency's overall operation. The RCM also requires that entities maintain appropriate documentation reflecting the hours used for allocating salaries. Finally, according to the RCM, costs reported on the CFR are considered for reimbursement if they are directly related to the special education program and are adequately documented.

FEC directly charged five office workers' salary costs to the Program on its CFRs. However, based on our review of job descriptions, we determined these employees performed general administrative duties rather than duties related to specific programs. Furthermore, FEC was unable to provide support for the hours worked in each program or the allocation methodology used to directly charge the salaries to the Program. Therefore, for the three fiscal years ended June 30, 2015, we reallocated these salary costs using SED's ratio-value method and determined $42,088 ($37,452 in salaries and $4,636 in associated fringe benefits) was inappropriately allocated to the Program.

Additionally, for the fiscal year ended June 30, 2015, FEC charged compensation costs totaling $22,104 ($19,740 in salary and $2,364 in associated fringe benefits) to the Program on behalf of a teacher who did not work in the Program.

Executive Director Compensation

According to the RCM, allocation of non-direct care compensation among various direct care job titles is not allowable. Furthermore, compensation for an employee who holds the responsibility and authority of Executive Director should be reported 100 percent as Executive Director.

We determined that a portion of the Executive Director's costs were reported as a direct care position and charged directly to the Program on the CFR for the fiscal year ended June 30, 2013. As a result, FEC reported ineligible expenses to the Program totaling $31,814 ($27,484 in salaries and $4,330 in associated fringe benefits).

Other Than Personal Service Costs

For the three fiscal years ended June 30, 2015, we identified a total of $65,950 in OTPS costs that FEC reported on its CFRs that were not allowable under SED's requirements.

Incorrectly Allocated OTPS Expenses

According to the RCM, agency administration costs are defined as those expenses that are not directly related to a specific program but are attributable to the overall operation of the agency. These include costs for the overall direction of the organization and costs for general record keeping, budget, and fiscal management. In addition, any expenditure that cannot be charged directly to a specific program must be allocated across all programs that benefit from the expenditure. Finally, 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 each fiscal year for review upon audit for a minimum of seven years. Allocation percentages should be reviewed on an annual basis and adjusted, as necessary.

FEC allocated certain costs (e.g., rent, non-household supplies, repairs and maintenance, equipment depreciation, utilities, and telephone expenses) directly to the Program based on historical and unsupported allocation methodologies. Additionally, all these costs were associated with agency administration and not directly related to the Program. For the three fiscal years ended June 30, 2015, we found that FEC reported excess costs to the Program totaling $47,273.

Other Ineligible Costs

According to the RCM, costs must be reasonable, necessary, directly related to the special education programs, and sufficiently documented. Also, costs for gifts, food for meetings, and food for staff are not reimbursable. We identified $12,200 in costs that were ineligible for reimbursement because they were not in compliance with these RCM requirements. These costs consisted of:

- $9,516 in costs that were not related to the Program;
- $1,373 in costs for meals that were provided at meetings and for staff;
- $598 in gifts;
- $545 in bank charges and late fees; and
- $168 in costs that did not have supporting documentation.

Working Capital Interest

The CFR Manual requires providers to submit CFRs no later than 120 days after the end of the reporting period or, with a preapproved 30-day extension request, no later than 150 days after the end of the reporting period. For July–June filers such as FEC, the due date is November 1, and the extended due date is December 1. According to the RCM, interest expense on working capital loans is not reimbursable if the CFR is not submitted within 90 days after the applicable due date.

FEC submitted its 2014-15 CFR on October 5, 2017 – 704 days after its due date. Additionally, the 2013-14 CFR was submitted on June 27, 2015 – 604 days after its due date. Finally, the 2012-13 CFR was submitted on August 13, 2015 – 650 days after its due date.

In all three cases, the CFR was submitted more than 90 days after the due date. Consequently, we determined $6,477 in working capital interest was ineligible for reimbursement for the three years ended June 30, 2015. SED had previously identified these costs as ineligible for reimbursement.

Recommendations

To SED:

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

2. Remind FEC officials of the pertinent SED requirements that relate to the deficiencies we identified.

To FEC:

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 FEC reported on its CFR for the fiscal year ended June 30, 2015 and certain costs reported on its CFRs for the two fiscal years 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 RCMs that applied to the years we examined and the CFR Manuals and related appendices. We evaluated FEC's internal controls as they related to costs it reported on the CFR. We also interviewed FEC personnel to obtain an understanding of their practices for reporting costs on the CFR. We reviewed FEC's CFRs for the three fiscal years ended June 30, 2015 and relevant financial records for the audit period. We obtained accounting records and supporting information to assess whether certain costs claimed by FEC on the CFR that were considered high risk and reimbursable in limited circumstances (for instance, employee salary allocations, OTPS allocations, and services such as Executive Director expenses) were properly calculated, adequately documented, and allowable.

Statutory Requirements

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.

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 FEC 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 this report. In SED's response, officials agreed with the audit recommendations and indicated the actions they will take to address them. In FEC's response, officials acknowledged that some expenses on the CFR were inaccurately reported. However, FEC officials disagreed with certain other disallowances identified in our report. Our responses to these FEC comments are included in the report's State Comptroller's Comments.

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.

Exhibit

Family and Educational Consultants
Schedule of Submitted and Disallowed Program Costs
for the Three Fiscal Years Ended June 30, 2015

Program Costs	Amount per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services	$903,810	$96,006	$807,804	A–C, H, J
Other Than Personal Services	148,386	65,950	82,436	B, D–G, I, K, L
Total Program Costs	**$1,052,196**	**$161,956**	**$890,240**	

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 FEC officials during the course of the audit.

A. RCM Section I.9: Agency administration is defined as those expenses that are not directly related to a specific program but are attributable to the overall operation of the agency. These costs include: costs for the overall direction of the organization; costs for general record keeping, budget, and fiscal management; costs for public relations (non-fundraising); and costs for parent agency expenditures.

B. RCM Section II: Costs are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and sufficiently documented.

C. RCM Section II.13.A.(4)(b) (July 2013 Edition): Allocation of non-direct care compensation among various direct care job titles is not allowable.

D. RCM Section II.22.C: Costs of food provided to any staff, including lunchroom monitors, are not reimbursable.

E. RCM Section II.24: Gifts of any kind are not reimbursable.

F. 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. No interest expenses will be reimbursed for entities that file cost reports more than 90 days after the respective due dates.

G. RCM Section II.30.C: Costs for food, beverages, entertainment, and other related costs for meetings, including board meetings, are not reimbursable.

H. RCM Section III.1.B: Actual hours of service are the preferred statistical basis upon which to allocate salaries and fringe benefits for shared staff who work on multiple programs. Entities must maintain appropriate documentation reflecting the hours used in this allocation. Acceptable documentation may include payroll records or time studies. If hours of service cannot be calculated or a time study cannot be completed, alternative methods that are equitable and conform to generally accepted accounting principles may be utilized. Documentation for all allocation methods (bases and percentages) must be retained for a minimum of seven years.

I. RCM Section III.1.M.(1): Any expenditures that cannot be charged directly to a specific program must be allocated across all programs and/or entities benefited by the expenditure.

J. RCM Section III.1.M.(1)(i): Salaries of employees who perform tasks for more than one program and/or entity must be allocated among all programs and/or entities for which they work.

K. RCM Section III.1.M.(2): Entities operating programs must use allocation methods that are fair and reasonable, as determined by the Commissioner's fiscal representatives. Such allocation methods, as well as the statistical basis used to calculate allocation percentages, must be documented and retained for each fiscal year for review upon audit for a minimum of seven years. Allocation percentages should be reviewed on an annual basis and adjusted, as necessary.

L. CFR Manual Section 4, Page 4.1: 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.

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

May 7, 2019

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 (SED) response to the draft audit report, 2018-S-29, Family and Educational Consultants (FEC) – Compliance with the Reimbursable Cost Manual.

Recommendation 1:

"Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on FEC's Consolidated Fiscal Report (CFR) and to FEC'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 FEC 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 FEC officials avail themselves of our assistance to help them better understand the rules for cost reporting and criteria for cost reimbursement as presented in the CFR, Regulation and the Reimbursable Cost Manual (RCM). Furthermore, SED will alert FEC of online CFR training that is available on SED's webpage. SED recommends that all individuals signing the CFR certification statements, namely the Executive Director and Certified Public Accountant, 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, Supervising Accountant, at (518) 474-3227.

Sincerely,

Sharon Cates-Williams

Sharon Cates-Williams

c: Phyllis Morris
Christopher Suriano
David Sears
Suzanne Bolling
Brian Zawistowski
James Kampf

Partnership For Education
Family & Educational Consultants, LLC
NPI #: 1558509703

Diana L. Brooks, PT
Stephanie Schleif-Jordan, M. Ed.
Claudia L. Stedge, M. Ed., LMSW

April 29, 2019

Amanda Eveleth
Office of the New York State Comptroller
110 State Street, 11th Floor
Albany, NY 12236

RE: *Family & Educational Consultants, LLC; Response to Draft Comptroller April 2019 Report*

Dear Ms. Eveleth:

I am contacting you to provide the response from Family & Educational Consultants ("FEC"), regarding the Draft Report prepared by the Office of the New York State Comptroller, identified as Family and Educational Consultants – Compliance with the Reimbursable Cost Manual, dated April 2019 ("Draft Comptroller Report"). This letter provides FEC's response to the Draft Comptroller Report.

As explained in the Draft Comptroller Report, the purpose of the report is to review costs reported by FEC as a program receiving funding under Article 81 and/or Article 89 of the Education Law to educate students with disabilities, to determine if costs are properly calculated, adequately documented and otherwise allowed under the New York State Education Department's ("SED") guidelines, most pertinent the Reimbursable Costs Manual ("RCM"). At

268 West Saugerties Road • Saugerties, New York 12477 • (845) 247-8777 • FAX (845) 247-8780
Toll Free 1-(877) 828-8498
www.partnershipfored.com

issue here is the Comptroller's Office Audit and Review of FEC's compliance as to reimbursable costs for the July 2014 to June 2015 period.

As you are aware, FEC previously provided written comments in response to the State Comptroller's Office Preliminary Audit Findings from January 2019, as reflected in the letter from me on behalf of FEC dated January 18, 2019. As made clear in our January 18, 2019 letter, FEC acknowledges there were some matters that were inaccurately identified or not otherwise fully documented as identified by your office, but we were requesting clarification from your office as to a number of issues being raised, as those issues were different than our understanding from the SED. *Comment 1

As you are aware, FEC is an SED approved, for profit special education provider that provides preschool special education services to children with disabilities between the ages of 3 and 5 years old. FEC has been effectively providing these services and producing very positive results for our clients since about 2000. Over that approximate 20 year period we have been working very closely with SED in terms of services provided, as well as in determining how to identify and best comply with the SED's guidelines under the RCM.

We are a small business in upstate New York. The RCM and related guidelines are very complex and impose a significant burden upon us in terms of being able to determine, by a non-lawyer lay person's understanding, what is included and excluded or how things should be identified or documented under the RCM. We have a very good working relationship with SED and they are very amenable to working with us as to compliance issues, as well as answering questions as to what is possibly covered for various scenarios under the RCM.

For example, in the Draft Comptroller Report, the Comptroller continues to identify a portion of my salary as Executive Director as not being consistent with the RCM. While we understand the Comptroller's interpretation, we worked with the SED on prior issues relating to

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salary for the Executive Director and the SED agreed as to the classification and what was included in the salary, and we reported it as such; however, the Comptroller's Office raises those same issues now, years later, as not being fully consistent with the RCM.

*Comment 2

Another issue is the OTPS expenses identified in the Draft Report. The RCM, Section II – Cost Principles, states that "Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program and are sufficiently documented." *See* July 2014 Edition RCM, page 13. The RCM further defines "Agency administration" as being "those expenses which are not directly related to a specific program, but are attributable to the overall operation of the agency." *See* July 2014 Edition RCM, page 11. The RCM then defines the scope of what administrative costs may include, as the following:

> Other-than-personal services costs of professional dues and conferences; travel; telephone; office equipment and supplies; bonding of employees handling program funds; fees for lawyers, accountants and consultants; charges from parent organizations; personnel advertising and other recruiting costs; minimum corporation franchise tax or similar business tax; postage; office equipment rental or depreciation; repairs and maintenance; depreciation on assets related to administration; administrative purchase of services; organization dues; licenses and permits; subscriptions and publications; interests on operating loans; administrative staff development; and membership in civic, business, professional or technical organizations.

See July 2014 Edition RCM, page 13.

While the Draft Comptroller Report identifies a number of costs under the OTPS expenses as allegedly being "associated with agency administration and not directly related to the Program", those identified costs detailed in the PFE letter dated January 18, 2019 were directly related to overall operation for services provided under the Program, which included the

*Comment 3

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supplies, phones, and conferences. Those were items specifically identified in the what "administrative costs may include" language of the RCM Costs Principles at page 2.

FEC continually endeavors to faithfully comply with its obligations under the RCM. While we acknowledge that some items may have been inaccurately identified or miscategorized according to your review, there was certainly no intention to do so; rather, our intention was to be as forthright as possible and seek assistance when needed as to understanding classification issues, which we regularly did with the SED. The SED is always helpful and we identify matters for purposes of the RCM consistent with how they advise us to do so.

We are a small business with a small staff operating underneath complex and detailed regulations. The way that the Comptroller's Office interprets and applies the RCM may be a more black and white application than the reality of how the SED works with small agencies as to these matters, recognizing that a number of the issues identified in the Draft Report are different in most cases for small businesses versus large companies. We recommend that the Comptroller review its auditing and reporting process in a way that comports with being practical for small businesses to comply with their obligations, and not simply apply the guidelines and standards in a black and white manner. The Comptroller's Office should consult with the SED as part of this process to ensure that all parties are working together with the same understanding as to the application of the RCM.

*Comment 4

Ultimately, the controlling standard under the RCM is that "costs would be considered for reimbursement provided such costs are reasonable, unnecessary, directly related to the special education program and are sufficiently documented." FEC is always endeavoring to comply with the spirit as well as the intent of the RCM, and believe that should be taken into consideration by the Comptroller when issuing its final Report.

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Please feel free to contact me if you have any questions.

Regards,

Claudia L. Stedge, LMSW, M.ED, SAS

C: Joseph F. Castiglione, Esq. Member/Partner Young/Summer LLC

Stephanie First, CPA Karp, Ackerman, Skabowski & Hogan CPS's PC

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State Comptroller's Comments

1. Contrary to their assertions, we provided FEC officials with supporting documentation for all issues raised in our preliminary audit findings reports on January 23, 2019. Additionally, we held a formal closing conference with FEC officials on February 8, 2019, during which we again discussed our audit conclusions and findings. At no time during that meeting did FEC officials request further clarification on these matters.

2. SED identified "Executive Director compensation" as a problem on FEC's 2013-14 CFR submission and required FEC to resubmit its CFR after FEC adjusted the compensation from a direct care position to a non-direct care position. We determined that "Executive Director compensation" was similarly misclassified on FEC's 2012-13 CFR. However, SED did not make an adjustment for this year even though a portion of the Executive Director's compensation was erroneously charged as a direct care position on FEC's 2012-13 CFR. Therefore, our conclusion regarding the "Executive Director compensation" on FEC's 2012-13 CFR was consistent with SED's required adjustment on the 2013-14 CFR.

3. We acknowledge that these costs were administrative in nature, which is why we did not disallow them in total. FEC classified these agency administration costs as a direct charge to the Program, in error, on its CFR. Therefore, we reallocated these costs using the ratio value method. The recommended audit disallowance is the difference between the amount that FEC directly charged to the Program and the audit-calculated ratio value allocation.

4. Throughout this audit, the team routinely met with SED officials to understand the RCM criteria and to obtain clarification and confirmation of audit-related matters. Moreover, the audit complied with the Generally Accepted Government Auditing Standards as prescribed by the U.S Government Accountability Office. We issued our preliminary audit findings reports and draft audit report to SED for their comments. In their formal response to our draft audit report, SED officials agreed with our audit recommendations and indicated they would review the recommended disallowances and make adjustments to the reported costs to recover any overpayments. Consequently, we maintain there are no misunderstandings regarding our interpretation of the rules that govern this program.

Contributors to Report

Executive Team

Andrew A. SanFilippo - *Executive Deputy Comptroller*

Tina Kim - *Deputy Comptroller*

Ken Shulman - *Assistant Comptroller*

Audit Team

Andrea Inman - *Audit Director*

Ed Durocher, CIA - *Audit Manager*

Amanda Eveleth, CFE **-** *Audit Supervisor*

Don Cosgrove - *Examiner-in-Charge*

Innocentia Freeman - *Senior Examiner*

Amy Tedesco - *Senior Examiner*

Contact Information
(518) 474-3271
StateGovernmentAccountability@osc.ny.gov
Office of the New York State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

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