

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 18, 2019

Ms. Shannon Tahoe
Interim Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Dr. Lisa Beaudry
Executive Director
Children's Educational Services, Inc.
774 Fairmount Avenue
Jamestown, NY 14701

Re: Compliance With the Reimbursable
Cost Manual
Report 2019-S-24

Dear Ms. Tahoe and Dr. Beaudry:

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 Children's Educational Services, Inc. (CES) 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

CES is an SED-approved, for-profit special education provider located in Jamestown. CES provides preschool special education services to children with disabilities who are between three and four years of age. For the fiscal year ended June 30, 2015, CES operated 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, CES provided special education services to 37 children with developmental disabilities from 12 different school districts located in Chautauqua County.

Chautauqua County pays tuition to CES for special education services using

reimbursement rates set by SED. The State, in turn, reimburses the county 59.5 percent of tuition paid. SED sets the special education tuition rates based on financial information, including costs, reported by CES on its 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 fiscal year ended June 30, 2015, CES reported \$725,856 in reimbursable costs for the Programs on its CFR.

Results of the Audit

We identified \$2,509 in other than personal service costs reported by CES on its CFR for the year ended June 30, 2015 that were ineligible for reimbursement. The ineligible costs included \$1,952 for non-allowable expenses and \$557 in unsupported agency administration expenses for rent and supplies.

According to the RCM, costs will be considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and adequately documented. Additionally, the RCM specifically states that costs for food provided to any staff, including lunchroom monitors, are not reimbursable. For the fiscal year ending June 30, 2015, CES reported ineligible costs totaling \$1,952 per the RCM. These ineligible costs included \$1,410 for expenses that were not directly related to the program (e.g., supplies and materials) and \$542 for food-related expenses provided to staff.

Further, CES charged an additional \$557 in agency administration expenses on its CFR for rent and supplies that did not reconcile with transactions on CES' general ledger. We deemed these to be ineligible costs due to the lack of proper support.

Recommendations

To SED:

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

To CES:

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

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. We audited the costs that CES reported on its CFR for the fiscal year ended June 30, 2015.

To accomplish our objective and assess internal controls related to our objective, we reviewed the RCM that applied to the year we examined as well as the CFR Manual and its appendices. We evaluated the internal controls over the costs claimed on, and schedules prepared in support of, the CFR submitted to SED. We also interviewed CES officials to obtain an understanding of their practices for reporting costs on the CFR. We reviewed CES' CFR for the fiscal year 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 CES on the CFR that were considered high risk and reimbursable in limited circumstances were properly calculated, adequately documented, and allowable. Our judgmental sample was based on the relative materiality of the various categories of costs reported and their associated levels of risk. Our sample was not designed to be projected to the entire population of reported costs.

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 CES 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 individual responses, both SED and CES officials agreed with the audit recommendations and indicated the actions they will take to address them.

Within 180 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 the recommendations were not implemented, the reasons why.

Major contributors to this report were Ed Durocher, Amanda Eveleth, Robert Horn, Innocentia Freeman, Jaqueline Keeys-Holston, and Erin Maloney.

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

Sincerely,

Brian Reilly, CFE, CGFM
Audit Director

cc: Sharon Cates-Williams, State Education Department
Traci Coleman, State Education Department
Brian Zawistowski, State Education Department
Phyllis Morris, State Education Department
James Kampf, State Education Department

Agency Comments - State Education Department



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

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Office of Performance Improvement and Management Services
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December 12, 2019

Mr. Brian Reilly
Audit Director
Division of State Government Accountability
NYS Office of the State Comptroller
110 State Street, 11th Floor
Albany, NY 12236

Dear Mr. Reilly:

The following is the New York State Education Department's (SED) response to the draft audit report, 2019-S-24, Children's Education Services, Inc. (CES) - 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 CES' CFR and to CES' 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 CES 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 CES' 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 CES 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 Brian Zawistowski, Assistant Director of the Rate Setting Unit, at (518) 474-3227.

Sincerely,


Sharon Cates-William
Deputy Commissioner

c: Phyllis Morris
Christopher Suriano
Suzanne Bolling
Traci Coleman
Brian Zawistowski
James Kampf

Agency Comments - Children's Educational Services, Inc.



Children's Educational Services, Inc.

774 Fairmount Avenue, Jamestown NY 14701
Phone: (716) 338-0668 Fax: (866) 694-4979



October 18, 2019

Office of the State Comptroller
110 State Street, 11th Floor
Albany, NY 12236

Attn: Brian Reilly, CFE, CGFM

Dear Mr. Reilly,

This letter is to serve as our response to the draft report provided to us on November 14, 2019 regarding your audit of our 2014-2015 CFR and our compliance with the reimbursable cost manual.

Your findings note that, of the \$725,856 of costs reported in our tuition-based programs, \$2,509 in Other Personal Service expenses reported by Children's Educational Services, Inc. were deemed to be ineligible for reimbursement. Of those costs, \$1,952 were non-allowable expenses and \$557 were discrepancies in rent and supplies charged to admin on the CFR report according to your findings.

We have reviewed the make up of the amounts listed above and we have also reviewed the reimbursable cost manual. We understand why the amounts have been considered unallowable and we agree with your findings. As a company, we have taken steps to ensure the errors noted in your report do not happen again in the future. We have done this through improved internal control over documentation and reporting as well as an increase in management oversight.

We would like to thank your audit team for their professionalism throughout the process and we look forward to finalizing this audit.

Sincerely,

Jennifer Anderson, CPA, CFE
Chief Financial Officer
Children's Educational Services, Inc.