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STATE COMPTROLLER



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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

November 14, 1997

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

Re: Report 97-F-29

Dear Mr. Hayden:

According to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we reviewed the actions taken by State Education Department (Department) officials as of September 5, 1997, to implement the recommendations in our prior audit report 95-S-34. The prior report issued on October 18, 1995, examined the Department's administration of the Nonpublic School Aid Program.

**Background**

In accordance with Section 3601 of the Education Law, the Department administers the Nonpublic School Aid Program (Program), which provides reimbursement to nonpublic schools for the expenses they incur in complying with certain State mandated requirements. Sixteen services qualify for reimbursement. The services that account for most of the reimbursements include the following: the Pupil Attendance Reporting program, the Pupil Evaluation Program, the Fifth Grade Writing Test, the Preliminary Competency Testing Program, the Regents Examination, and maintenance of student immunization records. The Pupil Attendance Reporting program is the most significant of the 16 mandated services in terms of the amount of time spent by school staff and the amount of aid reimbursed to schools.

At the time of our prior audit, the Department's Special Services Unit had one full-time and two part-time employees responsible for providing recipient schools with application instructions. This includes: instructions on how to prepare the application, what services are reimbursable, and how to calculate the applicable amount. This Unit received the completed applications, reviewed them for accuracy and compliance with the application instructions, and then processed them for payment. This responsibility was transferred to the Department's Local Assistance Office - Categorical Aid Unit. This unit has 16 staff and oversees \$1.6 billion in aid payments. During the 1996-97 fiscal year, 1,343

nonpublic schools received a total of \$45.9 million in aid through the Program. Most of this total (\$37.2 million) was paid to schools in the New York City metropolitan area.

### **Summary Conclusions**

In our prior audit, we found that Department officials did not provide adequate oversight of this Program. Although the schools included in our audit generally complied with Program requirements, we found schools were not reimbursed the proper amount of Program aid.

In our follow-up review we found that while some improvements have been made or are planned, Department officials need to take additional steps to ensure adequate oversight of Nonpublic School Aid Program.

### **Summary of Status of Implementation**

Of the four prior audit recommendations, one has been fully implemented, one has been partially implemented and two have not been implemented.

### **Follow-up Observations**

#### **Recommendation 1**

*Provide the level of oversight necessary to ensure schools comply with Program requirements. The level should be based on the results of formal risk assessments and should consider Department-wide priorities.*

#### **Status - Not Implemented**

Agency Action - The Categorical Aid Unit still performs desk audits of nonpublic school aid claims. These audits are classified as either full audits or abbreviated audits. New schools submitting applications for \$25,000 or more and schools whose application is more than 115 percent of the prior year's application receive a full audit. All others receive an abbreviated audit. In an abbreviated audit, they enter only the totals for each mandated service on the system. The system then checks to determine whether required data has been submitted. If all data has been submitted, they pay the claim.

In a full audit, the total for each mandated service and detail from the application for each mandated service is entered on the system. The system then performs the same checks it would for an abbreviated audit and checks the mathematical accuracy of the calculations performed for each mandated service.

Department staff has not conducted any on-site audits for this Program. Officials explained that they do not have adequate staff to do so. Since 1992-93 staffing has been cut from 28 to 16.7.

In addition, they indicated the Program is not material (\$45.9 million) in relation to the total aid for which this unit is responsible (\$1.6 billion). After our fieldwork for this review, Department officials indicated that barring any further staff reductions, they intend to conduct a limited number of on-site reviews to assess the accuracy of hourly rate calculations.

Department officials indicated that their internal audit unit will consider including this Program in their audit plan for the period July 1998 through June 2000.

Auditors' Comment - Although we believe it would not be cost effective for staff to visit every school, some form of additional oversight is needed to ensure aid payments are appropriate and to monitor compliance with Program requirements. We acknowledge that Program expenditures account for only a small part of State Aid to education. However, we believe that both the Program expenditures and the Program requirements are significant enough to warrant additional oversight.

### **Recommendation 2**

*Determine whether it is in the State's best interests to enforce compliance with the Education Law as it relates to requiring schools to maintain records of actual time spent on administering mandated services, or whether the existing requirement should be changed to allow for the use of parameters. Based on this determination, take the lead in modifying the Education Law as appropriate or enforcing its existing provisions.*

#### **Status - Fully Implemented**

Agency Action - Sections 179.1 and 179.2 of the Commissioner's Regulations have been amended. These amendments specify that schools are to use the time standards established by the Commissioner in calculating the costs of providing the mandated services. In addition, they are no longer required to maintain time records for each service provided but must maintain a time record for each employee involved in providing service for which reimbursement is requested.

### **Recommendation 3**

*Provide the proper oversight and review to ensure schools use their Program staff's actual working hours when calculating their average hourly rates of pay.*

#### **Status - Not Implemented**

Agency Action - Department officials indicated that in response to our audit they requested additional documentation of hourly rate calculations from a sample of schools. After conducting this review, they determined that no recovery of mandated service payments was necessary but in order to standardize the calculation and reporting of hours worked and hourly rates of pay, they changed application instructions to be more explicit. These new instructions read as follows:

“In calculating hourly salary and fringe benefit rates, if the total number of hours worked by an

employee is determined based on a standard workday, the number of hours in that workday must be in accordance with established school policy. If the total hours worked is based on other than a standard workday, documentation of hours worked must be maintained by the school.”

Beginning last year, Department officials no longer required schools to submit their hourly rate calculation worksheets. These worksheets also do not require the schools to provide data on what constitutes a standard workday for the various staffing categories (teachers, administrators and support staff).

After our fieldwork for this review, Department officials informed us they intend to request that schools supply them with data on what constitutes a standard workday for the 1997-98 school year reimbursement. They also indicated that they will again request submission of hourly rate calculation worksheets from a risk-based sample of schools, at which time they will also request documentation of standard workday-based calculations.

**Auditors' Comment** - In the Department's review of hourly rate calculations, Department officials did not request documentation to support the hours claimed by schools in their applications. Department officials calculated the hours per day used by schools and in all cases these appeared to be reasonable. During our prior audit, we found that school officials did not use staff's actual working hours in all sampled schools visited. School officials used classroom hours rather than actual hours worked which resulted in overstated employees' hourly rate of pay.

The Department's proposed review procedures are an improvement over its present procedures. However, Department officials should ensure the documentation submitted by schools is sufficient to allow a verification of the appropriateness of the standard workday used or hours worked used to calculate the employees' hourly rate of pay. Department officials should also conduct a limited number of site visits to verify the appropriateness of the hours reported to ensure these correspond to the actual hours worked by school staff.

#### **Recommendation 4**

*Assess the amount of overpayments made to schools statewide and implement an overpayment recoupment program.*

#### **Status - Partially Implemented**

**Agency Action** - Department officials continue to recover overpayments as a result of their desk audits. However, due to staff reductions it is not feasible to conduct an assessment of all schools statewide or conduct site visits.

**Auditors' Comments** - In our prior audit, we reviewed Program aid application forms submitted

by seven schools. Our review was limited to the Pupil Attendance Reporting program. We found that each school had overstated its actual average hourly rate of pay, resulting in aid overpayments totaling \$149,636.

As stated above, although we believe it would not be cost effective for staff to visit every school, some form of additional oversight is needed to monitor compliance. Department officials should require schools to submit the information needed to allow a desk audit of the school's average hourly rates of pay. Department officials should recover any overpayments that result from these desk reviews. Department officials should conduct a risk assessment and limit their reviews to those schools and mandated services that have the greatest risk.

Contributors to this report were William Challice, Frank Russo, Robert Lindholm, Aaron Fruchter and Thomas Kulzer.

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

Yours truly,

A handwritten signature in cursive script that reads "Carmen Maldonado".

Carmen Maldonado  
Audit Director

cc: Patricia Woodworth  
Richard Mills  
Thomas Sheldon