

New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Compliance With the Reimbursable Cost Manual

**State Education Department
Whitestone School for Child Development**



Report 2014-S-38

April 2015

Executive Summary

Purpose

To determine whether the costs reported on the Consolidated Fiscal Reports (CFRs) of the Whitestone School for Child Development (Whitestone) were calculated properly, documented adequately, and allowable pursuant to the State Education Department's (SED) Reimbursable Cost Manual (Manual). The audit included all expenses claimed for the fiscal year 2012-13 and certain expenses for the two fiscal years ended June 30, 2012.

Background

Whitestone is a not-for-profit organization that provides a full-day preschool special education program to disabled children between the ages of three and five years. Whitestone, located in Queens, New York, provides preschool services throughout Queens and neighboring boroughs. For the fiscal year ended June 30, 2013, Whitestone reported approximately \$2.3 million in reimbursable costs for the programs.

Key Findings

For the three fiscal years ended June 30, 2013, we identified \$154,563 in reported costs that did not comply with Manual requirements and recommend such costs be disallowed. These ineligible costs included \$115,296 in personal services costs and \$39,267 in other than personal service costs. Among the disallowances we identified were:

- \$58,355 in unsupported employee expenses;
- \$56,941 in bonus payments that did not comply with Manual guidelines;
- \$10,592 for unsupported vehicle charges;
- \$9,344 for rental accruals reported in the wrong fiscal year; and
- \$3,088 for other miscellaneous personal and unsupported expenses.

Key Recommendations

To SED:

- Review the recommended disallowances resulting from this audit and make the appropriate adjustments to Whitestone's CFRs and reimbursement rates.
- Work with Whitestone officials to help ensure their proper reporting of reimbursable costs.

To Whitestone:

- Ensure that costs reported on annual CFRs comply with Manual requirements.

Other Related Audits/Reports of Interest

[Bilingual SEIT & Preschool, Inc.: Compliance with the Reimbursable Cost Manual \(2011-S-13\)](#)
[IncludED Educational Services, Inc.: Compliance with the Reimbursable Cost Manual \(2010-S-59\)](#)

State of New York
Office of the State Comptroller

Division of State Government Accountability

April 7, 2015

Ms. Elizabeth R. Berlin
Acting Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Ms. Madelyn Ross
Ms. Michele Rosenbaum
Co-Executive Directors
Whitestone School for Child Development
14-45 143rd Street
Whitestone, NY 11357

Dear Ms. Berlin, Ms. Ross, and Ms. Rosenbaum:

The Office of the State Comptroller is committed to providing accountability for tax dollars spent to support government-funded services and 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 of our audit of the expenses submitted by the Whitestone School for Child Development to the State Education Department for the purposes of establishing the preschool special education tuition reimbursement rates used to bill public funding sources that are supported by State aid payments, entitled *Compliance With the Reimbursable Cost Manual*. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance 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 final report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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This report is also available on our website at: www.osc.state.ny.us

Background

The Whitestone School for Child Development (Whitestone) is a not-for-profit organization that provides a full-day preschool special education program to disabled children between the ages of three and five years. Whitestone, located in Queens, New York, provides preschool services throughout Queens and neighboring boroughs.

The New York City Department of Education (DoE) refers students to Whitestone and pays for these services using rates established by the New York State Education Department (SED). The rates are based on financial information that Whitestone reports to SED on its annual Consolidated Fiscal Reports (CFRs). To qualify for reimbursement, Whitestone's costs must comply with SED's Reimbursable Cost Manual (Manual), which provides guidance to special education providers on the eligibility of reimbursable costs, the documentation necessary to support these costs, and cost allocation requirements for expenses relating to multiple programs. Reimbursable costs must be reasonable, program-appropriate, and properly documented. SED reimburses the DoE for a portion of its payments to Whitestone based on statutory rates.

For the fiscal year ended June 30, 2013, Whitestone reported approximately \$2.3 million in reimbursable costs for the audited programs. Our audit scope period was fiscal year 2012-13. However, we expanded our review to include certain items claimed on the CFRs for fiscal years 2010-11 and 2011-12. For the three fiscal years ended June 30, 2013, Whitestone reported about \$6.2 million in reimbursable costs on its CFRs.

Audit Findings and Recommendations

For the three fiscal years ended June 30, 2013, we identified \$154,563 in reported costs that did not comply with the Manual's requirements for reimbursement. The ineligible costs included \$115,296 in personal service costs and \$39,267 in other than personal service costs (see Exhibit at end of report).

Personal Service Costs

According to the Manual, personal service costs, which include all taxable and non-taxable salaries and fringe benefits paid or accrued to employees on the agency's payroll, must be reported on the CFR as either direct care costs (e.g., teachers' salaries) or non-direct care costs (e.g., administrators' salaries). We identified \$115,296 in personal service costs that do not comply with the Manual guidelines for reimbursement.

Unsupported Payroll Expenses

According to the Manual, costs will be reimbursed provided such costs are reasonable, necessary, and directly related to the education programs. The Manual also states that compensation costs must be based on approved and documented payrolls. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid. Employee time sheets must be signed by the employee and a supervisor, and must be completed at least monthly.

For the three fiscal years ended June 30, 2013, Whitestone reported \$58,355 in compensation (salary and fringe benefits) on its CFRs for a teacher's assistant. We asked to see the employee's personnel folder, payroll and time records, and work schedule. School officials advised us that they had never prepared or maintained personnel and time and attendance records for this employee. They also informed us that she does not have standard work hours or a work schedule. Whitestone officials said that the employee works one or two days per week, on an as-needed basis. Her duties include assisting with managing the students' arrival at and departure from school, assisting students during emergency drills, and preparing various student schedules. The employee told us that she often prepared and summarized these schedules at home.

Due to the lack of required documentation, we are recommending that SED recover the \$58,355 in the compensation reported and paid to this employee.

Employee Bonuses

The Manual defines bonuses as non-recurring and non-accumulating (i.e., not included in base salary of subsequent years) lump sum payments to employees that are in excess of regularly scheduled salary and not directly related to hours worked. Bonus compensation may be reimbursed if it is based on merit as measured and supported by employee performance evaluations for any direct care employee. During fiscal years 2011-12 and 2012-13, the Manual specifically prohibits

bonuses to non-direct care staff (e.g., the Executive Director).

During the three fiscal years ended June 30, 2013, Whitestone awarded and paid \$21,550 in bonuses to direct care employees. These bonuses were not supported by performance evaluations, as required. During the two fiscal years ended June 30, 2013, Whitestone awarded and paid \$31,345 in bonuses to its non-direct care staff. In addition, Whitestone reported and paid \$4,046 in payroll taxes associated with these bonuses (e.g., Social Security). Whitestone officials advised us that these payments were not bonuses but additional compensation provided to certain employees who earned less than comparable employees in other schools in the region. However, the Manual defines such payments (non-accumulating payments in excess of regularly scheduled salary) as bonuses. Therefore, we recommend that \$56,941 (representing \$52,895 in bonuses and \$4,046 in fringe benefits) be disallowed.

Other Than Personal Service Costs

For the three fiscal years ended June 30, 2013, Whitestone reported a total of \$2.5 million in other than personal service (OTPS) costs on its CFRs charged to the preschool special education program. We identified \$39,267 in OTPS costs that did not comply with the Manual's guidelines.

Student Recruitment

According to the Manual, advertising costs for the purpose of recruiting students into programs or soliciting fundraising monies or donations are not reimbursable. During the three fiscal years ended June 30, 2013, Whitestone reported \$16,243 in advertising expenses. We determined that the advertisements were used to recruit students by offering free services, such as evaluations and tuition, to parents who were concerned with their child's physical and emotional development. The Manual explicitly states that this form of student recruitment is non-reimbursable. We recommend that SED recover these non-reimbursable recruitment expenses.

Vehicle Expenses

For the three fiscal years ended June 30, 2013, Whitestone charged \$10,592 in lease payments, insurance premiums, and gas expenses for two vehicles utilized by one of the co-Executive Directors. According to the Manual, for these costs to be reimbursable, the provider must document reimbursable usage on a "vehicle usage log," which details the vehicle operator, points of destination, dates and times of travel, and the purpose of each trip. Whitestone officials did not maintain the required vehicle logs. Therefore, we recommend that SED recover these unsupported vehicle expenses.

Accrued Rent Expenses

The CFR Manual requires that providers use the accrual basis of accounting and submit their CFRs to SED no later than November 1 following the end of the fiscal year. Therefore, expenses are to be matched against the associated revenues. On its fiscal year 2012-13 CFR, Whitestone

reported 13 monthly rental payments totaling \$121,472. However, only 12 payments totaling \$112,128 should have been reported. The check for the 13th payment was dated June 30, 2013 and stated that the payment was the rent for July 2013 – the first month of the 2013-14 fiscal year. Whitestone officials said that they will report only 11 monthly rental payments on their 2013-14 CFR. However, based on accrual accounting, this payment should not have been included on the 2012-13 CFR. Therefore, we recommend SED recover the inappropriate rental charge of \$9,344.

Miscellaneous Expenses

The Manual states that all non-program-related personal expenses, such as gifts, flowers, or staff parties, are not reimbursable. The Manual also states that costs will be reimbursable provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. We recommend that SED recover \$3,088 in expenses that were not in compliance with Manual guidelines. These expenses include:

- \$1,698 in personal expenses for staff/classroom parties and for flowers that were sent to a co-Executive Director when she was ill;
- \$777 in unsupported telephone expenses; and
- \$613 in an unsupported vehicle rental expense.

Other Matter

Questionable Transaction

During the three fiscal years ended June 30, 2013, Whitestone leased an automobile and purchased another vehicle for use by the co-Executive Director. As a not-for-profit entity, Whitestone was exempt from paying \$6,019 in sales tax on these lease and purchase transactions. Also, we found that the co-Executive Director paid over 98 percent of the car payments (deducted from her bi-weekly paychecks) while the school paid \$10,592 in other vehicle expenses. When we asked Whitestone officials what the vehicles were used for, they advised us that they were primarily for the personal use of the co-Executive Director. The use of these vehicles was not reflected on the co-Executive Director's W-2 form as taxable compensation. We question whether the reporting of these transactions as tax exempt was appropriate.

Recommendations

To SED:

1. Review the ineligible expenses identified during our audit and make the appropriate adjustments to Whitestone's CFRs. Adjust Whitestone's reimbursement rates, as appropriate.
2. Work with Whitestone officials to help them comply with Manual provisions.

To Whitestone:

3. Ensure that costs reported on the annual CFRs comply with Manual requirements.

Audit Scope and Methodology

We audited the propriety of, and support for, the expenses reported by Whitestone on its CFRs for the fiscal year ended June 30, 2013, and for certain charges during the two fiscal years ended June 30, 2012. The objectives of our audit were to determine whether the costs reported by Whitestone were program-appropriate, adequately documented, and eligible for reimbursement pursuant to SED's Manual.

To accomplish our objectives, we reviewed the SED Manual, Whitestone's CFRs, and relevant financial records for the audit period. We also interviewed Whitestone's officials, staff, and independent auditors to obtain an understanding of their financial and business practices. In addition, we assessed a sample of reported costs to determine whether they were supported, program-appropriate, and reimbursable. Our review of Whitestone's internal controls focused on payroll and the procurement of other than personal services.

We conducted our 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 objectives. We believe that the evidence obtained during our audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 management functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

Reporting Requirements

We provided draft copies of this report to SED and Whitestone officials for their review and formal comment. We considered officials' comments in preparing this report and have included them in their entirety at the end of it. In their response, SED officials agreed with our audit recommendations and indicated certain actions they will take to address them. Whitestone officials, however, asserted that disallowance of the ineligible costs we cited was unwarranted,

given Whitestone's existing tuition reimbursement rates. Our rejoinders to certain comments by Whitestone officials 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.

Contributors to This Report

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Exhibit

**Whitestone School for Child Development
Schedule of Submitted, Disallowed, and Allowed Program Costs
For Fiscal Years 2010-2011, 2011-2012, and 2012-2013**

Program Costs	Amount Per CFR*	Amount Disallowed	Amount Allowed	Notes to Exhibit
Personal Services				
Direct Care	\$2,802,692	\$82,294	\$2,720,398	
Agency Administration	\$880,093	\$33,002	\$847,091	
Total Personal Services	\$3,682,785	\$115,296	\$3,567,489	B,D,G
Other Than Personal Services				
Direct Care	\$1,884,206	\$8,264	\$1,875,942	
Agency Administration	\$637,523	\$31,003	\$606,520	
Total Other Than Personal Services	\$2,521,729	\$39,267	\$2,482,462	A,B,C,E,F,H
Total Program Costs	\$6,204,514	\$154,563	\$6,049,951	

*Includes all Personal Service and Other Than Personal Service costs reported for the three years ended June 30, 2013.

Notes to Exhibit

The following Notes refer to specific sections of SED's Reimbursable Cost Manual used to develop 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 Whitestone officials during the course of our audit.

- A. Section I.3.B – Accrual basis of accounting is required for all programs. The expenses are required to be matched against the revenue they generate.
- B. Section II – Costs must be reasonable, necessary, program related, and sufficiently documented.
- C. Section II.3 – Outreach activities, which describe the services offered by approved private schools, should be that of only providing information and not for the purpose of recruiting students into programs or soliciting fundraising monies or donations.
- D. Section II.13.A.10 – Bonuses, which are non-recurring or non-accumulating lump sum payments that are in excess of regularly scheduled salary and not directly related to hours worked, may be reimbursed if they are based on merit as measured and supported by employee performance evaluations.
- E. Section II.20.B – All personal expenses, such as personal travel expenses, laundry charges, beverage charges, gift certificates to staff and vendors, etc., are not reimbursable unless otherwise specified in the Manual.
- F. Section II.59.D.1 – Cost of personal use of a program-owned or leased automobile is not reimbursable. The cost of vehicles used by program officials, employees, or Board members to commute to and from their homes is not reimbursable.
- G. Section III.1.A – Compensation costs must be based on approved, documented payrolls. Payrolls must be supported by employee time records prepared during, not after, the time period for which the employee was paid.
- H. Section III.1.J.2 – Vehicle use must be documented with individual vehicle logs that include at a minimum: the date and time of travel, to and from destinations, mileage between each destination, and purpose of travel and name of traveler.

Agency Comments - SED



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
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March 3, 2015

Mr. Frank Patone
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street – 11th Floor
Albany, NY 12236

Dear Mr. Patone:

The following is the New York State Education Department's (SED) response to the draft audit report, 2014-S-38 of the State Education Department: Whitestone School for Child Development.

Recommendation 1: Review the recommended disallowances resulting from our audit and Make the appropriate adjustments to Whitestone's CFRs. Adjust Whitestone's reimbursement rates, as appropriate.

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: Work with Whitestone officials to help them comply with Manual provisions.

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the Whitestone School for Child Development 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, Consolidated Fiscal Report (CFR) training is available both in person, at one of the six locations it is offered across the State, and online on the Department's webpage. The Department 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 and the Department intends to require that this 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.

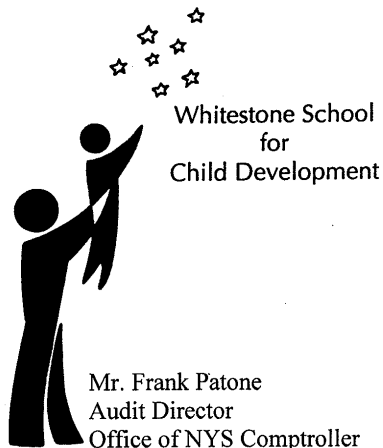
Sincerely,

A handwritten signature in black ink, appearing to read "S. Cates-Williams". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Sharon Cates-Williams

c: James P. DeLorenzo
Suzanne Bolling

Agency Comments - Whitestone



Whitestone School
for
Child Development

14-45 143rd Street, Whitestone, N.Y. 11357 Tel: (718) 746-6555
Fax: (718) 767-3727

March 9, 2015

Mr. Frank Patone
Audit Director
Office of NYS Comptroller
123 William Street – 21st Floor
New York, NY 10038-3804

Dear Mr. Patone:

In response to your audit report for Whitestone School for Child Development Inc. (“Whitestone”) it is very important to keep in mind that the school has a certified/reconciled tuition rate of \$ 119.90 per day for each student, one of the lowest rates in the Queens New York City Region and well below the median rate for similar schools in the region. As a result the school receives approximately \$ 10,000 per child less than the average tuition per child for a school in this region. Accordingly Whitestone receives almost 1 million per year less in tuition than the average school in the Queens/New York City Region.

Whitestone runs its school on a very tight budget and has to manage its cash flow very carefully in order to meet the school’s financial obligations due to the school’s low certified tuition rates.

For the audit period of three fiscal year June 30, 2011 thru June 30, 2013 Whitestone reported approximately \$7.3 million in reimbursable costs for the audited programs.

Personal Services

Teacher’s Aide & Related Benefits

Criteria: The Manual states that compensation costs must be based on approved and documented payrolls. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid. Employee time sheets must be signed by the employee and a supervisor, and must be completed at least monthly.

The Teacher Aide in question worked for Whitestone during the audit period. She performed various functions for the school including working as a teacher’s aide floater, assisting with managing the children on the stairs while arriving and departing from the school, prepared various schedules for the school including the related service schedules for all the therapies

*
Comment
1

* See State Comptroller’s Comments, Page 18

received by the students, attendance schedules, evaluation billings, tuition receivable schedules, and various other filings as required. These tasks are essential in helping the school prepare for the state required year- end certified audit and CFR preparation. I have attached an example of the reports she prepares and included in our package as Exhibit 1. These forms were shown to the auditors when they interviewed the Teacher Aide in question. Payrolls are processed twice a month the Teacher's Aide hours/days were documented on the bi-weekly payroll sheets and the School's Controller approved every payroll. We feel this disallowance is unwarranted based on the services the Teacher's Aide provided for the school which were reasonable, necessary, and program related. Based on Whitestone's tight budget and the low reconciled rate per student of \$ 119.90 per day using the Teacher Aide in this manner saved the School from hiring a full time Floater and bookkeeper enabling Whitestone to meet its financial obligations.

*
Comment
2

Bonuses

Criteria: The Manual defines bonus compensation as a non-recurring and non-accumulating (i.e., not included in base salary of subsequent years) lump sum payment(s) in excess of regularly scheduled salary which is not directly related to hours worked. Bonus compensation may be reimbursed if based on merit as measured and supported by employee performance evaluations. Bonus compensation restricted to only administrative staff is not reimbursable.

The Whitestone School operates on a very tight budget as previously stated in the first paragraph of this response. The salaries of our administrative staff are significantly less than the median salaries for the administrative staff for other schools in our region. The school's administrative staff draws a low weekly salary in order to ensure that the school can meet its financial obligations throughout the year. If cash flow permits the administrative staff takes retroactive compensation not a bonus to bring them back to their normal salary for the year if cash flow permits. The administrators in the subsequent fiscal year did not take salary as cash flow did not permit in September 2013 and October 2013. Accordingly we feel this disallowance is unwarranted as the school attempts to meet all other financial obligations prior to making up any salary to the administrators and only pays out the additional salary if cash flow permits.

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Comment
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Other than Personal Service Costs

Accrued Rent Expenses

Criteria: According to the Manual, the accrual basis of accounting is required for all programs. Therefore, expenses are to be matched against the revenue they generated.

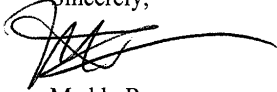
The School paid July 2013 rent on June 30, 2013 resulting in 13 months of rent payments for the fiscal year ended June 30, 2013. The July 2013 payment of \$ 9,344 was included in Whitestone's rent expense for the year ended June 30, 2013. However only 11 months is included in the rent

*
Comment
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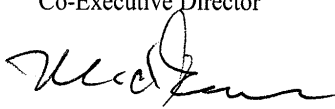
expense for the year ended June 30, 2014. Therefore the net expense for the 2 years is the same to SED.

Thank you for your consideration to this response.

Sincerely,



Maddy Ross
Co-Executive Director



Michele Rosenbaum
Co-Executive Director

State Comptroller's Comments

1. It should be noted that the tuition reimbursement rates of special education programs can vary significantly due to multiple factors, including the wide range in and severity of the various educational and developmental challenges faced by special education students. As such, certain schools have comparatively high tuition rates, while others have comparatively low rates. Moreover, regardless of their respective tuition rates, all preschool special education providers must fully comply with the provisions of the Reimbursable Cost Manual and other applicable SED guidance.
2. Whitestone officials did not provide us with adequate documentation of the employee's attendance or hours worked to support the corresponding payroll costs claimed during the audit period. However, based on documentation provided by Whitestone, we allowed \$1,492 paid to this individual (as a consultant) for bookkeeping services, and we amended our report, as appropriate.
3. Although Whitestone officials refer to the payments in question as "retroactive compensation," these payments are consistent with the Manual's definition of a bonus, as referenced in our report. Further, Whitestone officials referred to a portion of the payments in question as a "bonus" in their accounting records.
4. For rate-setting purposes, the applicable expenses for each individual fiscal year must be reported accurately. Further, as there are only 12 months in a year, the accrual of a 13th month's rent in a fiscal year is not consistent with the accrual basis of accounting.