

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 29, 2014

Dr. John B. King, Jr.
Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Ms. Alice O. Kears
Executive Director
Early Childhood Learning Center (aka Circle of Friends)
2 Bethlehem Court
Delmar, NY 12054

Re: Compliance With the Reimbursable Cost
Manual: Circle of Friends
Report 2014-S-32

Dear Dr. King and Ms. Kears:

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 Circle of Friends 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

Circle of Friends, a for-profit organization with locations in Ravena and Delmar, New York, is authorized by SED to provide preschool special education services to children with disabilities between the ages of three and five years. For the fiscal year ended June 30, 2013, Circle of Friends provided Preschool Integrated Special Education services and Special Education Itinerant Teacher services to about 112 children from 12 school districts in three counties (Albany, Rensselaer, and Greene) in Upstate New York. Circle of Friends received about \$1.1 million in funding from the State and counties in support of these special education services.

The counties that use Circle of Friends' special education services pay tuition to Circle of Friends using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the special education tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by Circle of Friends on its annual Consolidated Fiscal Reports (CFRs) filed with 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 meet the reporting requirements prescribed by the Consolidated Fiscal Reporting and Claiming Manual. For the fiscal year ended June 30, 2013, Circle of Friends reported approximately \$1.1 million in reimbursable costs for the preschool special education rate-based programs they operated.

Results of Audit

Based on our review of a sample of transactions, we found that, generally, the costs reported by Circle of Friends on their CFR were properly calculated, adequately documented, and allowable according to the RCM. We focused our audit efforts on selected categories of costs charged to Circle of Friends' special education programs including personal service, property and lease, repairs and maintenance, utilities and office supplies, and postage. We reviewed 336 transactions totaling \$146,082 in expenses reported under these categories by Circle of Friends on its CFR and identified \$604 in non-reimbursable costs that were either undocumented or unnecessary.

According to the RCM, costs are generally reimbursable if they are reasonable, necessary, directly related to the special education program, and sufficiently documented. From our review of the 336 transactions, we identified ten transactions totaling \$487 for which Circle of Friends officials could not provide supporting documentation. We also identified \$117 in late fees Circle of Friends inappropriately reported on its CFR. Circle of Friends officials indicated that, on occasion, they incur vendor late fees. However, Circle of Friends inappropriately reported the late fees on its CFR because it did not separate them from other reimbursable costs incurred when making vendor payments.

Recommendations

To SED:

1. Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to Circle of Friends' reimbursement rates.
2. Remind Circle of Friends officials of the pertinent SED guidelines that relate to the deficiencies we identified.

To Circle of Friends:

3. Ensure that costs reported on annual CFRs fully comply with SED's guidelines and requirements.

Audit Scope, Objective, and Methodology

We audited the expenses submitted by Circle of Friends on its CFR for the fiscal year ended June 30, 2013. The objective of our audit was to determine whether the costs submitted by Circle of Friends on its CFRs were properly calculated, adequately documented, and allowable under SED's guidelines, including the RCM.

To accomplish our objective, and assess internal controls related to our objective, we reviewed Circle of Friends' financial records and interviewed Circle of Friends officials and staff to obtain an understanding of their financial practices relating to the expenses reported on its CFR. We also interviewed SED officials to obtain an understanding of the CFR and the policies and procedures contained in the RCM and the Consolidated Fiscal Reporting and Claiming Manual. To complete our audit work, we reviewed supporting documentation for a judgmental sample of 336 transactions totaling \$146,082 (or about 13 percent) of \$1,142,676 in expenses reported by Circle of Friends on its CFR. The 336 transactions were selected based on our identification of transactions that might be at a higher risk of inappropriate payment.

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 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 (some of whom have minority voting rights) to certain boards, commissions, and public authorities. 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 Circle of Friends officials for their review and formal comment. We considered SED's and Circle of Friends' comments in preparing this report and have included them in their entirety at the end of it. In their responses, SED and Circle of Friends officials concurred with our recommendations and indicated that certain actions will be taken to address them.

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 Dennis Buckley, Brian Krawiecki, Devisha Gujjar, Tracy Glover, and Jacqueline Keeys-Holston.

We would like to thank you for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

Andrea Inman
Audit Director

cc: Maria Guzman, Director – Office of Audit Services, SED
Suzanne Bolling, Director of Special Education Fiscal Services, 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

November 20, 2014

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, (2014-S-32) of the State Education Department Compliance with the Reimbursable Cost Manual: Circle of Friends.

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to Circle of Friends' reimbursement rates.

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: Remind Circle of Friends officials of the pertinent SED guidelines that relate to the deficiencies we identified.

We agree with this recommendation.

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 cursive script that reads "S. Cates-Williams".

Sharon Cates-Williams

c: James P. DeLorenzo
Suzanne Bolling
Maria Guzman

Agency Comments - Circle of Friends

Circle of Friends (dba)
Early Childhood Learning Center, Inc.
14379 Route 9W
Ravena, New York 12143
Phone: (518) 756-3124
Fax: (518) 9676

11/24/14

Andrea M. Inman
Audit Director
110 State St. – 11th Floor
Albany, New York 12236-0001

Re.: Compliance with the Reimbursable Cost
Manual: Circle of Friends
Report 2014-S-32

Dear Ms. Inman,

This agency is in receipt of the above report. We commend the audit staff for the professionalism and courtesy they displayed as they examined in detail the finances of this agency's tuition based programs.

We are pleased with the results of the audit. It identified no discrepancies in the following areas: personal service, property and lease, repairs and maintenance, utilities and office supplies, and postage. In the single category of expense transactions the auditors' meticulous work found \$604 out of \$146,082 to be non-reimbursable which by some standards may be considered minimal. However, our goal will continue to be 100% compliance as suggested.

We would also like to extend our thanks to the staff of the Rate Setting Unit. They have always been helpful and responsive to our questions regarding the Reimbursable Cost Manual. We will continue our close work with them.

Sincerely,

Alice O. Kears
Executive Director