

THOMAS P. DINAPOLI  
COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

July 18, 2017

Ms. MaryEllen Elia  
Commissioner  
State Education Department  
State Education Building  
89 Washington Avenue  
Albany, NY 12234

Mr. Jon Feingold  
Executive Director  
Hagedorn Little Village School  
750 Hicksville Road  
Seaford, NY 11783

Re: Compliance With the Reimbursable  
Cost Manual  
Report 2017-S-4

Dear Ms. Elia and Mr. Feingold:

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 Hagedorn Little Village School (HLVS) 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**

HLVS, a not-for-profit organization located in Seaford, New York, is an SED-approved provider of preschool special education services. HLVS offers preschool special education services to children with disabilities from infancy to age five. For the fiscal year ended June 30, 2015, HLVS offered four SED-funded, rate-based preschool special education programs: Preschool Special Class – 2.5 hours per day; Preschool Special Class – over 2.5 hours per day; Preschool Special Education Itinerant Teacher services; and Preschool Integrated Special Class – 2.5 hours per day (collectively referred to as the Programs). During the 2014-15 school year, HLVS provided these services to 317 children from school districts located in Nassau and Suffolk counties.

The counties that use HLVS' preschool special education services pay tuition to HLVS using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the special education tuition that the counties pay. SED sets the special education tuition rates based on financial information, including costs, that HLVS reports to SED on its annual Consolidated Fiscal Report (CFR). Costs reported on the CFR must comply fully with the provisions of SED's Reimbursable Cost Manual (RCM) regarding the eligibility of costs and documentation requirements, and must meet the reporting requirements prescribed by the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the year ended June 30, 2015, HLVS reported \$6,285,225 in reimbursable costs on its CFR for the Programs.

### **Results of Audit**

For the fiscal year ended June 30, 2015, the personal service costs reported by HLVS on its CFR that we tested were in compliance with the RCM and the CFR Manual. However, we identified \$10,040 in other than personal service costs that HLVS reported on its CFR that did not comply with SED's prescribed requirements for reimbursement. The ineligible costs included:

- \$5,627 in non-Program-related costs;
- \$3,071 in fundraising-related costs;
- \$1,140 in costs associated with special education provider advocacy;
- \$190 in advertising costs; and
- \$12 in food costs.

Details of these ineligible costs are presented below.

According to the RCM, costs reported on the CFR are eligible for reimbursement if they are reasonable, necessary, and directly related to the special education program. However, we identified \$5,627 in costs that were not in compliance with these RCM provisions. Specifically, we found the following that were not directly related to the Programs:

- \$2,850 in legal costs for HLVS' Early Intervention (EI) program;
- \$1,425 in accounting costs for an affiliate and the EI program;
- \$1,238 in equipment costs for the EI program; and
- \$114 in field trip costs for students in programs other than preschool special education.

According to the RCM, costs of organized fundraising to raise capital or to obtain contributions are not reimbursable. We identified \$3,071 in fundraising software costs that were not in compliance with this RCM provision.

According to the RCM, costs associated with retainers for legal, accounting, or consulting services are not reimbursable unless the fee represents payment for actual documented reimbursable services rendered, provided the services are not for lobbying efforts. Lobbying activities include, but are not limited to, advocating for legislation and activities associated with obtaining grants, contracts, cooperative agreements, or loans. We identified \$1,140 in payments to an organization that provides advocacy on behalf of special education providers. These costs

were not in compliance with the RCM.

According to the RCM, advertising costs for the purpose of soliciting fundraising monies or donations are not reimbursable. We identified \$190 in advertising costs for a fundraiser that were not in compliance with this RCM provision.

According to the RCM, costs for food provided to any staff, including lunchroom monitors, are not reimbursable. We identified \$12 in food costs that were not in compliance with this RCM provision.

### **Recommendations**

#### **To SED:**

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

#### **To HLVS:**

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 HLVS reported on its CFR for the fiscal year ended June 30, 2015. The objective of our audit was to determine whether the costs that HLVS reported on its CFR 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 the RCM, as well as the CFR Manual and related appendices. We interviewed SED officials to obtain an understanding of the CFR, as well as the policies and procedures contained in the RCM and the CFR Manual. We became familiar with HLVS' internal controls as they related to the costs that HLVS reported on the CFR. We also interviewed HLVS personnel to obtain an understanding of their financial practices relating to the costs reported on the CFR. We reviewed HLVS' CFR for the audit period and obtained accounting records and supporting information for our review of a judgmental sample of personal service and other than personal service costs that were considered high risk and reimbursable in limited circumstances, such as food and fundraising.

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 HLVS 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 the report. In their responses, SED and HLVS officials agreed with the audit recommendations and indicated the actions they will take 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 David Fleming, Dan Towle, Laurie Burns, Karen Ellis, and Adriane Inman.

Sincerely,

Andrea Inman  
Audit Director

cc: Suzanne Bolling, Director of Special Education Fiscal Services, SED  
Thalia Melendez, Director of Audit 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  
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June 30, 2017

Ms. Andrea Inman  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236

Dear Ms. Inman:

The following is the New York State Education Department's (Department) response to the draft audit report, 2017-S-4, Compliance with the Reimbursable Cost Manual: Hagedorn Little Village School (HLVS).

**Recommendation 1:** Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on HLVS' CFR and to HLVS' tuition reimbursement rates.

We agree with this recommendation; however, SED will review further the HLVS, and the OSC application of the slot allocation methodology for allocating costs between the integrated program and after school daycare program. After giving additional consideration to this finding, 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 HLVS 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 HLVS 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 online on SED's webpage. SED recommends that all individuals signing the CFR certification statements, namely Executive Directors and Certified Public Accountants, complete this training. At the direction of the Board of Regents, the Department intends to require that this training be mandatory and will require individuals to verify that they have completed the training.

If you have any questions regarding this response, please contact Suzanne Bolling, Director of Special Education Fiscal Services at 518/474-3227.

Sincerely,

Sharon Cates-Williams

c: Christopher Suriano  
Suzanne Bolling

# Agency Comments - Hagedorn Little Village School



Pamela A. Madeiros  
518-689-1412  
madeirosp@gtlaw.com

June 8, 2017

## VIA ELECTRONIC MAIL

Andrea Inman  
Audit Director,  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, New York 12236

**Re: State Education Department  
Compliance with the Reimbursable Cost Manual  
Hagedorn Little Village School  
Audit 2017-S-4  
Draft Report**

Dear Ms. Inman:

We have reviewed the above referenced Draft Report of findings concerning the expenses submitted by the Hagedorn Little village School (HLVS) to the State Education Department on its Consolidated Fiscal Report for the school year ending June 30, 2015 for purposes of establishing the preschool special education tuition reimbursement rates.

HLVS appreciates the opportunity to provide comment on the Report findings and would like to acknowledge the professionalism of the audit team and the courtesies and cooperation extended during the audit process.

### Other Than Personal Service Costs

#### **Services Related to Program**

We do not challenge the auditors' determination that select expenses had not been properly allocated to each of the appropriate cost centers, including the proportionate share of certain legal costs which should have been allocated to the Early Intervention Program, together with the proportionate share of certain accounting costs and equipment costs which also should have been allocated to the Early Intervention Program.

We also do not challenge the auditors' finding that \$114 of field trip expenses should not have been reported as Program expenses.

### **Fundraising**

We do not challenge the auditor's determination that the proportionate share of certain fundraiser software costs should have been reported as a nonreimbursable expense, as are all fundraising expenses. Little Village had mistakenly characterized the software as equipment and reported it accordingly.

### **Advertising**

Little Village also does not challenge the auditors' finding that the \$190 in costs relating to a fundraising event had been inadvertently identified as advertising and reported, accordingly, as a reimbursable expense. Little Village's internal controls have been strengthened to assure the proper characterization of such costs in the future.

### **Food**

We do not challenge the auditors' determination that \$12 in food costs for lunchroom monitors was inadvertently reported as an allowable cost. Protocols around cost identification have been refined to confirm the appropriateness of such costs in the future.

### **Advocacy Fees**

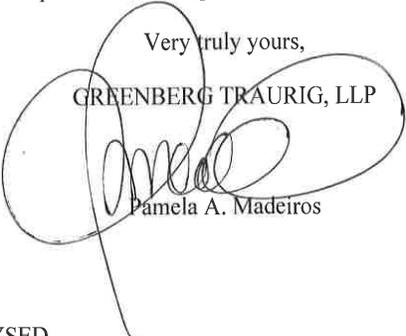
We do not challenge the auditors' finding that certain expenses (\$1,140) had been inadvertently misreported as an allowable cost. As the auditors acknowledge, the GL entries clearly reflect two distinct fees -- a regional coalition membership fee and a fee for general representation/legal -- signaling HLVS's recognition of the distinction between allowable and non-allowable expenses. HLVS has strengthened its internal controls to prevent such misreporting on the CFR in the future.

. . . .

HLVC appreciates the opportunity to provide comment on the Draft Report and has strengthened its internal controls, policies and procedures in response to the identified findings.

Very truly yours,

GREENBERG TRAUIG, LLP



Pamela A. Madeiros

PAM/hac  
ALB 2029945v1

CC: Suzanne Bolling, NYSED  
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