



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 The New Interdisciplinary School



Executive Summary

Purpose

To determine whether the costs reported by The New Interdisciplinary School (NIS) on its Consolidated Fiscal Reports (CFR) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (RCM). The audit covered the expenses reported on NIS' CFR for the fiscal year ended June 30, 2015, and certain expenses reported on NIS' CFR for the fiscal year ended June 30, 2014.

Background

NIS is an SED-approved, not-for-profit special education provider located in Suffolk County, New York. NIS provides preschool special education services to children with disabilities who are between three and five years of age. NIS is reimbursed for preschool special education services through rates set by SED. The reimbursement rates are based on financial information, including costs, that NIS reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with the RCM requirements. For the two fiscal years ended June 30, 2015, NIS reported approximately \$11.6 million in reimbursable costs on its CFRs for the five rate-based preschool special education programs (Programs) it operated.

Key Findings

For the two fiscal years ended June 30, 2014 and 2015, we identified \$119,752 in ineligible costs that NIS reported on its CFRs for the Programs. The ineligible costs included:

- \$83,192 in personal service costs, which consisted of \$76,277 in improperly allocated salaries and fringe benefit costs, \$5,658 in non-reimbursable bonuses and associated mandated fringe benefits, and \$1,257 in compensation and associated mandated fringe benefits related to a health insurance incentive program; and
- \$36,560 in other than personal service costs, which consisted of \$30,978 in unsupported consulting costs, \$3,826 in ineligible auditing fees, and \$1,756 in other non-reimbursable expenses.

Key Recommendations

To SED:

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

To NIS:

- Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.

Other Related Audits/Reports of Interest

[North Country Kids, Inc.: Compliance With the Reimbursable Cost Manual \(2016-S-53\)](#)

[Lois Bronz Children's Center, Inc.: Compliance With the Reimbursable Cost Manual \(2016-S-86\)](#)

State of New York
Office of the State Comptroller

Division of State Government Accountability

December 8, 2017

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

Jay Silverstein, Ph.D.
Executive Director
The New Interdisciplinary School
430 Sills Road
Yaphank, NY 11980

Dear Ms. Elia and Dr. Silverstein:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government 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 New Interdisciplinary School to the State Education Department for the purpose 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; Article II, Section 8 of the State Finance Law; and Section 4410-c of the State Education 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 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 New Interdisciplinary School (NIS), a not-for-profit organization located in Yaphank, New York, is authorized by the State Education Department (SED) to provide, among other programs, preschool special education services to children with disabilities who are between three and five years of age. During the audit period, NIS operated five SED-funded, rate-based preschool special education programs: two separate Preschool Special Classes – over 2.5 hours per day; Preschool Special Class – 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). The Programs served 310 children in Suffolk County.

The counties that use NIS' preschool special education services pay tuition to NIS using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition paid. SED sets the preschool special education tuition rates based on financial information, including costs, reported by NIS on the 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 two fiscal years ended June 30, 2015, NIS reported approximately \$11.6 million in reimbursable costs for the Programs on its CFRs.

Audit Findings and Recommendations

According to the RCM, costs reported on the CFR are considered for reimbursement if they are reasonable, necessary, directly related to the special education programs, and adequately documented. For the two fiscal years ended June 30, 2015, we identified \$119,752 in costs that NIS reported on its CFR that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$83,192 in personal service costs and \$36,560 in other than personal service (OTPS) costs.

Personal Service Costs

Personal service costs include program-related and administrative expenses for employee salaries, bonuses, and fringe benefits. For the two years ended June 30, 2015, we identified \$83,192 in personal service costs that were not eligible for reimbursement. The ineligible costs included \$76,277 in improperly allocated salaries and associated fringe benefits, \$5,658 in bonuses and associated mandated fringe benefits, and \$1,257 in compensation and associated mandated fringe benefits related to a health insurance incentive program.

Improper Allocation of Clinical Care Salaries

According to the RCM, actual hours of service is the preferred statistical basis upon which to allocate salaries and fringe benefits for shared staff who work in multiple programs. Acceptable documentation for the hours used in this allocation includes payroll records and time studies. When a time study is used (e.g., using two weeks per quarter of the cost reporting period), it must contemporaneously track the hours of service that staff work in the various programs (i.e., a time study conducted in a current cost reporting year may not be used to allocate the costs of a subsequent cost reporting year).

For the fiscal year ended June 30, 2015, we identified \$62,657 in clinical staff salaries and \$13,620 in associated fringe benefits that were improperly reported on the CFR for the Programs. For the fiscal year ended June 30, 2015, NIS changed from a manual entry process to an automated upload process for allocating clinical staff salary based upon the percentages identified in the time studies. However, the automated upload process failed and, consequently, the clinical staff salaries reported on the CFR for the fiscal year ended June 30, 2015 were erroneously based on the allocation percentages calculated and manually entered into the payroll system from the final time study performed by clinical staff in the fiscal year ended June 30, 2014. In response to this finding, NIS officials stated they refined their internal control procedures to conduct random sampling testing of allocation percentages to guard against such system failures in the future.

Bonuses

According to the RCM, bonus compensation is restricted to direct care employees and may only be reimbursed if it is based on merit and supported by employee performance evaluations. For the two fiscal years ended June 30, 2015, we identified \$5,158 in non-reimbursable bonuses and

\$500 in associated mandated fringe benefits paid to the Executive Director, a non-direct care employee whose bonuses and mandated fringe benefits are not eligible for reimbursement.

Other Ineligible Compensation

Fringe benefits include employment benefits that are required by State and federal law, such as Social Security and worker's compensation, as well as benefits that are not mandated by State or federal law, such as employer contributions to health insurance and retirement benefits. The RCM states that fringe benefit reimbursement is subject to the principle that benefits for individual employees or officers/directors are proportionately similar to those received by other classes or groups of employees. We determined the Executive Director was paid \$1,257 (\$1,139 in additional compensation and \$118 in associated mandated fringe benefits) for his participation in a "Health Is Wealth" incentive program, which he was eligible for as part of the parent company's health insurance. However, no other NIS employees were eligible for this benefit. Therefore, the \$1,257 is not eligible for reimbursement.

Other Than Personal Service Costs

We identified \$36,560 in OTPS costs that did not meet the RCM's requirements for reimbursement. This included \$30,978 in unsupported consulting costs, \$3,826 in ineligible auditing fees, and \$1,756 in other non-reimbursable expenses, including food, gifts, bank fees, travel, and equipment.

Consulting Fees

According to the RCM, adequate documentation for consulting services must include itemized invoices that indicate the specific services provided, the dates the services were provided, the number of hours provided, the fee per hour, and the total charged. We identified \$30,978 in unsupported consulting expenses for information technology services. In response to this matter, NIS officials stated they strengthened their internal protocols to ensure that, going forward, vendors document the details of the services provided.

Non-Allowable Auditing Expense

The RCM states that non-audit services provided by the registered public accounting firm or any person associated with that firm during or within 365 days of required audit work are not reimbursable. We identified \$3,826 in expenses for non-audit services (related to the completion of Internal Revenue Service tax form 990) that were provided within 365 days of the required audit work. As such, these expenses are ineligible for reimbursement.

Other Ineligible Expenses

According to the RCM, costs are reimbursable provided such costs are reasonable, necessary, and directly related to the special education programs. Also, expenses for food and gifts are not reimbursable. For the fiscal year ended June 30, 2015, we identified \$1,756 in costs that were

ineligible for reimbursement because they were not in compliance with these RCM requirements. The ineligible costs include the following:

- \$1,258 in food for staff;
- \$337 in equipment that was not directly related to the Programs;
- \$88 in unnecessary bank fees;
- \$50 in gifts; and
- \$23 in unnecessary travel costs.

Recommendations

To SED:

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

To NIS:

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 NIS reported on its CFR for the fiscal year ended June 30, 2015 and certain costs reported on NIS' CFR for the fiscal year ended June 30, 2014. The objective of our audit was to determine whether the reported costs were allowable, properly calculated, and adequately documented in accordance with the applicable SED requirements.

To accomplish our objective and assess internal controls related to our objective, we reviewed the RCM that applied to the years we examined, as well as the CFR Manual and its related appendices. We became familiar with NIS' internal controls as they related to costs it reported on the CFR. We reviewed NIS' CFR for the fiscal year ended June 30, 2015 as well as the audited financial statements for the same period. We also interviewed NIS personnel to obtain an understanding of their practices related to the costs reported on the CFR. We obtained accounting records and supporting information to assess whether certain costs claimed by NIS on the CFR that were considered high risk and reimbursable in limited circumstances (such as salary allocations, employee bonuses, and food expenses) were properly calculated, adequately documented, and allowable. Based on exceptions found in our initial review, we expanded our review to include certain costs reported for the fiscal year ended June 30, 2014.

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.

Authority

This audit was performed 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.

Reporting Requirements

We provided a draft copy of this report to SED and NIS 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 response, SED officials agreed with the audit recommendations and indicated the actions they will take to address them. In NIS' response, officials disagreed with our proposed audit disallowances related to a health insurance incentive program and non-audit CPA costs. Our rejoinders to these NIS comments 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

**The New Interdisciplinary School
Schedule of Submitted and Disallowed Program Costs
for the two Fiscal Years Ended June 30, 2015**

Program Costs	Amount per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services	\$9,385,534	\$83,192	\$9,302,342	B, C–F
Other Than Personal Services	1,688,404	36,560	1,651,844	A, G–M
Parent Agency Administration	489,709	–	489,709	
Total Program Costs	\$11,563,647	\$119,752	\$11,443,895	

Notes to Exhibit

The following Notes refer to specific sections of the RCM and CFR Manual that we used as a basis for 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 NIS officials during the course of the audit.

- A. RCM Section II: Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented.
- B. RCM Section III.1.B: Actual hours of service are the preferred statistical basis upon which to allocate salaries and fringe benefits for shared staff who work on multiple programs. Entities must maintain appropriate documentation reflecting the hours used in this allocation. Acceptable documentation may include payroll records and time studies. Appendix L of the CFR Manual indicates that a time study must be contemporaneous with the costs to be allocated. Thus, a time study conducted in the current cost reporting year may not be used to allocate the costs of prior or subsequent cost reporting years.
- C. RCM Section II.13.A.10: Merit award (or bonus compensation) shall mean a non-recurring and non-accumulating (i.e., not included in base salary of subsequent years) lump sum payment in excess of regularly scheduled salary which is not directly related to hours worked.
- D. RCM Section II.13.A.10.a: Merit awards are restricted to direct care titles/employees as defined by the RCM's Appendix A-1 and those in the 100 position title code series and position title code 505 and 605 as defined by the CFR's Appendix R.
- E. RCM Section II.13.B.1: Fringe benefits may include paid time off, such as vacation leave, sick leave, military leave, holidays, training and education costs, provided the benefit is established by written school policy. Payments into specific employee benefit packages, such as teachers' retirement, employees' retirement and pension plans, Social Security, health insurance, disability insurance, union welfare funds or pension plan termination insurance premiums paid pursuant to the Employee Retirement Income Security Act of 1974, may also be included.
- F. RCM Section II.13.B.2.c: Reimbursement of fringe benefit expenses shall be subject to the following principle: benefits including pensions, life insurance, and Tax Sheltered Annuities (TSAs) for individual employees or officers/directors are proportionately similar to those received by other classes or groups of employees.
- G. RCM Section III.1.C.2: Adequate documentation includes, but is not limited to, the consultant's resume, a written contract which includes the nature of the services to be provided, the charge per day, and service dates. All payments must be supported by itemized invoices which indicate the specific services actually provided; and for each service, the date(s), number of hours provided, fee per hour, and total amount charged.
- H. RCM Section II.14.F: Costs associated with non-audit services provided by a registered public accounting firm or any person associated with that firm, during or within 365 days of required audit work, are not reimbursable.
- I. RCM Section II.10: Charges to programs receiving administrative services, insurance,

supplies, technical consultants, etc. from a parent or related organization are reimbursable provided they are not duplicative in nature, provide a direct benefit to the subsidiary charged, and are based on actual direct and indirect costs.

- J. RCM Section II.24: Gifts of any kind are non-reimbursable.
- K. RCM Section II.30.A: Reimbursement for transportation costs to off-site conferences will be limited to the most cost effective means of travel.
- L. RCM Section II.22.C: Costs of food provided to any staff, including lunchroom monitors, are not reimbursable.
- M. RCM Section II.30.C: Costs for food, beverages, entertainment, and other related costs for meetings, including Board meetings, are not reimbursable.

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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November 29, 2017

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 (Department) response to the draft audit report, 2017-S-20, Compliance with the Reimbursable Cost Manual: The New Interdisciplinary School (NIS).

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on NIS' CFRs and to NIS' 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 NIS 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 NIS 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 Policy at 518-474-3227.

Yours truly,

Sharon Cates-Williams
Deputy Commissioner

c: Christopher Suriano
Suzanne Bolling
bc: Commissioner

Agency Comments - The New Interdisciplinary School



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November 20, 2017

VIA ELECTRONIC EMAIL

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

**RE: State Education Department
Compliance with Reimbursable Cost Manual
The New Interdisciplinary School (NIS)
Draft Report #2017-S-020**

Dear Ms. Inman:

We have reviewed the above-captioned Draft Report concerning the costs submitted by The New Interdisciplinary School (NIS) on its Consolidated Fiscal Report (CFR) for the fiscal year ending June 30, 2015, and certain expenses reported on NIS's CFR for the fiscal year ending June 30, 2014, which considered whether such reported costs were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (RCM). We provide the following comments and challenges to specific findings presented.

Personal Service Costs

Clinical Care Salary Allocations

NIS's internal control protocols include mechanisms by which the salaries and fringe benefits for shared staff who work in multiple programs are appropriately allocated consistent with the governing provisions of the RCM. As the auditors accurately presented, in fiscal year 2014-15, NIS modified the method by which the time study allocation percentages were entered into the payroll system. The modification failed, and rather than reflect true data, the time study allocation percentages were pulled from the prior year allocation percentages (2013-14). This isolated system error caused an overstatement in the year 2014-15 only.

NIS has refined its internal control procedures to provide random sampling testing of allocation percentages to guard against such system failures.

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Amanda Eveleth
November 20, 2017
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Bonuses

We do not challenge the auditors' finding that certain bonus payments were made outside the parameters prescribed by the RCM. NIS has strengthened its internal fiscal controls to assure future bonus payments, if made, comply fully with the provisions of the RCM. (\$5,158)

Certain Ineligible Compensation

NIS acknowledges that certain benefits (more specifically, payments for participation in the Health is Wealth Program) were only made available to a single management individual. Only that single individual was not already a member of the Program since that individual maintained a separate health care program from another provider. All other staff were already participants by virtue of their enrollment in the IGHL benefit system which included the Health is Wealth Program. The incurred expense of \$1,257.00 enabled the single management individual to enjoy the benefits already enjoyed by the entirety of the staff - thus actually assuring "proportional similarity" of benefits rather than creating a benefit exclusively for one.

*
Comment
1

Other Than Personal Service Costs

Unsupported Consulting Fees

NIS acknowledges that the documentation initially provided to the auditors in support of certain information technology consultant expenses requires further detail and substantiation and requested the vendor review its own records maintained in the ordinary course of business to provide additional detail to submitted invoices. The vendor did not respond with any additional information.

NIS recognizes the importance of assuring accuracy and accountability in its billing procedures and has strengthened its internal protocols to assure vendors well document the detail of services provided, as verified upon review by NIS's fiscal staff, to address the issue presented by the finding, however exceptional to the general rule the handling of the transaction may have been.

Ineligible Audit Fees

NIS challenges the auditors' assertion that certain non-audit services provided by a registered public accounting firm are ineligible for reimbursement merely by virtue of the period within which the services were delivered and that period's proximity to the provision of audit services.

As the auditors are aware, as a not-for-profit corporation, NIS is required to file appropriate tax and reporting documents including the IRS Form 990. Accordingly, preparation of this and related required documents is an ordinary business expense which is reimbursable under the Reimbursable Cost Manual similar to other required filing charges and costs. We believe that the RCM clearly contemplates the reimbursement of such costs as distinguished from other "non-audit related" accountant services which are not associated with required filings.

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Comment
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We respectfully request the auditors reconsider the finding.

Amanda Eveleth
November 20, 2017
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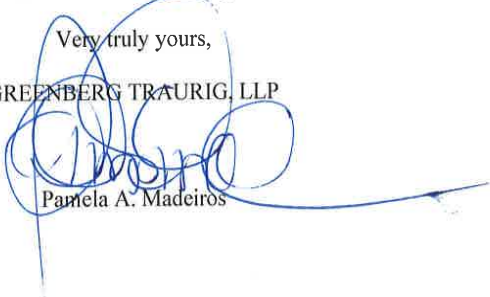
Certain Ineligible Expenses

While NIS does not challenge many of the findings [more specifically: food related purchases for staff appreciation lunches and lunch meetings (\$1,258); bank charges for insufficient funds necessarily incurred as a result of delayed reimbursement payments (\$88); and a holiday gift (\$50)], we provide the following challenges and context for a select number of findings:

- **Equipment:** While NIS does not challenge the finding, we believe the error arose from the vendor's practice of simply billing any new phone to a pre-established phone's number, thereby making distinguishing the detail of the billing invoice nearly impossible. The vendor has subsequently improved its billing practices to provide greater detail so that such an error has been prevented in years subsequent to the audit year;
- **Holiday flower basket:** While not challenging the finding, NIS must clarify that the expense was not incurred on behalf of NIS, but rather by the IGHF Foundation (as associated entity) and erroneously reported as an NIS expense. Improved protocols will prevent the reoccurrence of such an oversight in the future; and
- **Early-bird flight check-in:** While not challenging the finding, NIS must qualify that the "early check-in" costs were incurred by a staff person who required certain seat selections be made for health reasons.

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We, at NIS, appreciate the opportunity to provide comment and context to the auditors' findings and note the professionalism displayed by the audit team throughout the audit process.

Very truly yours,
GREENBERG TRAURIG, LLP

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Jay Silverstein, NIS
MaryBeth Lichtneger, IGHF

State Comptroller's Comments

1. The RCM states that fringe benefit reimbursement is subject to the principle that benefits for individual employees or officers/directors be proportionately similar to those received by other classes or groups of employees. NIS' Executive Director is enrolled in the IGHL (NIS' parent company) benefit system, which provides IGHL employees the option of enrolling in the Health Is Wealth incentive program. However, employees of NIS are not eligible to enroll in this program or a program that is proportionately similar. Therefore, we maintain that the \$1,257 in compensation the Executive Director received for his participation in this program is not reimbursable.
2. According to the RCM, costs associated with non-audit services provided by a registered public accounting firm during or within 365 days of required audit work are not reimbursable. The accounting firm that audited NIS' financial statements also provided non-audit services (tax form preparation costing \$3,826) within 365 days of required audit work, which is not reimbursable per the RCM. Therefore, we maintain that the \$3,826 in costs is not reimbursable.