

THOMAS P. DINAPOLI  
COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

July 15, 2019

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

Mr. Raymond G. Romanczyk  
Director  
Children's Unit for Treatment and Evaluation  
SUNY at Binghamton  
Binghamton, NY 13902-6000

Re: Compliance With the Reimbursable  
Cost Manual  
Report 2018-S-47

Dear Ms. Elia and Mr. Romanczyk:

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 Children's Unit for Treatment and Evaluation (CUTE) 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**

CUTE is an SED-approved special education provider located in Broome County, New York, and is administered by the Research Foundation for the State University of New York at Binghamton University. CUTE provides preschool special education services to children with disabilities who are between three and five years of age. During the 2015-2016 school year, CUTE's Preschool Special Class (referred to as the Program) served 22 children from Broome and Tioga Counties.

The counties that use CUTE's preschool special education services pay tuition to CUTE using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition paid. SED sets the special education tuition rates based on

financial information, including costs, reported by CUTE 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 three fiscal years ended June 30, 2016, CUTE reported approximately \$1.8 million in reimbursable costs for the Program on its CFRs.

### **Results of the Audit**

According to the RCM, costs reported on the CFR are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and adequately documented. For the three fiscal years ended June 30, 2016, we identified \$232,606 in reported costs that did not comply with the RCM's requirements for reimbursement.

#### ***Other Than Personal Service Costs***

##### ***Parent Agency Administration Costs***

According to the RCM, charges to programs receiving administrative services, insurance, supplies, technical consultants, or other services from a parent or related organization are reimbursable provided they are not duplicative in nature, provide a direct benefit to the subsidiary charged, are based on actual direct and indirect costs, are allocated to all programs on a consistent basis, and are defined as reimbursable in the RCM, the CFR Manual, or the Regulations of the Commissioner of Education.

CUTE is a sponsored program of the SUNY Research Foundation (Foundation), which provides parent agency administration services that include leased space, building maintenance, accounting, and human resource services. In general, costs associated with these services are allowable when properly reported on the CFR. The Foundation uses a federally approved facilities and administration rate to account for these expenses among its sponsored programs. CUTE applied this rate to its direct program expenses (that were charged elsewhere on the CFR) to calculate the parent agency administration expenses reported on the CFR. According to the RCM, this method of calculating parent agency administrative expenses is not allowed. CUTE reported \$232,464 in parent agency administrative costs for the three fiscal years ended June 30, 2016 on its CFR that did not comply with SED's requirements for reimbursement.

##### ***Consultant Costs***

According to the RCM, travel expenses of consultants are not reimbursable. CUTE reported \$142 in non-reimbursable consultant travel expenses on its CFR for the fiscal year ended June 30, 2016.

## **Recommendations**

### **To SED:**

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

### **To CUTE:**

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**

The objective of our audit was to determine whether the reported costs were allowable, properly calculated, and adequately documented in accordance with applicable SED requirements. We audited the costs that CUTE reported on its CFR for the fiscal year ended June 30, 2016 and certain costs reported on its CFRs for the two fiscal years ended June 30, 2015.

To accomplish our objective and assess internal controls related to our objective, we reviewed the RCMs that applied to the years we examined as well as the CFR Manuals and related appendices. We evaluated CUTE's internal controls as they related to costs it reported on the CFR. We also interviewed CUTE personnel to obtain an understanding of their practices for reporting costs on the CFR. We reviewed CUTE's CFRs for the three fiscal years ended June 30, 2016 as well as relevant financial records for the audit period. We obtained accounting records and supporting information to assess whether certain costs claimed by CUTE on the CFRs that were considered high risk and reimbursable in limited circumstances (parent agency administration allocations and consultant travel expenses) were properly calculated, adequately documented, and allowable.

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 CUTE 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 responses, SED and CUTE officials generally agreed with the audit recommendations and indicated the actions they would take to address them. Regarding the audit findings related to parent agency administration costs, CUTE officials stated the allocated administrative costs were reasonable, necessary, and not duplicative in nature to costs already reported on the CFR. SED officials stated they would further review these costs to determine if the amount of the disallowance is warranted. CUTE officials stated they look forward to working with SED to determine an appropriate method for charging administrative expenses.

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.

Major contributors to this report were Ed Durocher, Amanda Eveleth, Don Cosgrove, Innocentia Freeman, and Amy Tedesco.

We would like to thank the management and staff of SED and CUTE for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

Andrea Inman  
Audit Director

cc: David Sears, State Education Department  
Phyllis Morris, State Education Department  
Traci Coleman, State Education Department  
Brian Zawistowski, State Education Department  
James Kampf, State Education Department  
Paul Parker, The Research Foundation for SUNY  
Ryan Farrell, The Research Foundation for SUNY

# 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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July 1, 2019

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 (SED) response to the draft audit report, 2018-S-47, Children's Unit for Treatment and Evaluation (CUTE) – Compliance with the Reimbursable Cost Manual.

Recommendation 1:

"Review the findings identified by our audit and, if warranted, make the necessary adjustments to the costs reported on CUTE's CFRs and to CUTE's tuition reimbursement rates."

We agree with this recommendation; provided that SED will further review the recommended disallowances regarding parent agency administration costs to determine if the amount of the disallowance is warranted. In consideration of the aforementioned, 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 CUTE 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 CUTE officials avail themselves of our assistance to help them better understand the rules for cost reporting and criteria for cost reimbursement as presented in the CFR, Regulation and the Reimbursable Cost Manual (RCM). Furthermore, SED will alert CUTE of online CFR training that is available on SED's webpage. SED recommends that all individuals signing the CFR certification statements, namely the Executive Director and Certified Public Accountant, complete this training. This training is a requirement for preschool special education providers upon approval and reapproval.

If you have any questions regarding this response, please contact James Kampf, Supervising Accountant, at (518) 474-3227.

Sincerely,

A handwritten signature in cursive script that reads "Sharon Cates-Williams".

Sharon Cates-Williams

c: Phyllis Morris  
Christopher Suriano  
David Sears  
Traci Coleman  
Suzanne Bolling  
Brian Zawistowski  
James Kampf

# Agency Comments - Children's Unit for Treatment and Evaluation



June 6, 2019

Andrea Inman  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236-0001

SUBJECT: Response to Draft Audit Response, Report 2018-S-47, Compliance with the Reimbursable Cost Manual, Children's Unit for Treatment and Evaluation

Dear Ms. Inman:

On behalf of the Children's Unit for Treatment and Evaluation at the State University of New York, Binghamton, The Research Foundation for State University of New York at Binghamton University is providing the response to the above referenced audit report.

We would like thank the audit team from the Office of the State Comptroller who worked with this office and the Children's Unit for Treatment and Evaluation during the audit process.

Please do not hesitate to contact me if there are any questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "P. Parker", is written over a blue circular stamp or seal.

Paul C. Parker  
Associate Vice President for  
Research Administration and  
Research Foundation Operation's  
Manager, Binghamton University

cc: Dr. Raymond Romanczyk, Director CUTE  
Ryan Farrell, Vice President Internal Audit, RF SUNY

*Office of Sponsored Funds*  
*Mailing Address: Binghamton University, PO Box 6000 Binghamton, NY 13902-6000*  
*Courier Address: Innovative Technologies Complex, 65 Murray Hill Road, Binghamton NY 13902*  
*607-777-6752; Fax 607-777-4354*

The Research Foundation for State University of New York  
The Children's Unit for Treatment and Evaluation (CUTE)  
Response to Draft Audit Findings, Audit #2018-S-047  
Compliance with the Reimbursable Cost Manual  
June 2019

**Correction to Background, Paragraph One, Sentence One:**

CUTE is an SED-approved, not-for-profit organization located in Broome County, New York.

**Response:** The Children's Unit for Treatment and Evaluation was established by an act of the New York State Legislature and is administered by The Research Foundation for State University of New York at Binghamton University. CUTE is not a separate not for profit organization.

[\\* Comment 1](#)

**Results of the Audit, Other Than Personal Service Costs**

**Parent Agency Administration Costs:**

CUTE is a sponsored program of the SUNY Research Foundation (Foundation), which provides parent agency administrative services that include leased space, building maintenance, accounting and human resource services. In general, costs associated with these services are allowable when properly reported on the CFR. The Foundation uses a federally approved facilities and administration rate to account for these expenses among its sponsored programs. CUTE applied this rate to its direct program expenses (that were charged elsewhere on the CFR) to calculate the parent agency administration expenses reported on the CFR. According to the RCM, this method of calculating parent agency administrative expenses is not allowed. CUTE reported \$232,464 in parent agency administrative costs for the three fiscal years ended June 30, 2016 on the CFR that did not comply with SED's requirements for reimbursement.

**Response:**

According to the CFR Section 15, agency administration costs must be allocated to each applicable program. NYSED uses the ratio value (R/V) method to determine the reasonableness of a rate, which takes the total agency administration costs and divides it by total agency operating costs (i.e. *direct personal services, fringe benefits and OTPS*). The approved ratio value method uses direct operating costs as the basis for allocating administrative costs. Similarly, the RF has an approved agency overhead rate or Facilities and Administrative Rate (F&A Rate). F&A is the mechanism used by higher education institutes to reimburse for agency administrative support costs associated with each applicable sponsored program. It is calculated as a percentage of administrative costs divided by the total direct operating costs of sponsored and other activities. The F&A rate for the RF is reviewed and approved by our federal cognizant, Department of Health and Human Services (DHHS), and is based on actual incurred costs. Therefore the allocation of administrative costs by the RF is generally consistent with the methodology prescribed in the Reimbursable Cost Manual (RCM) and Consolidated Fiscal Reporting (CFR). The administrative costs allocated were reasonable, necessary, not duplicative in nature to costs already reported on the CFR, and benefited the program in an equitable manner.



Although the Research Foundation for SUNY could have applied the appropriate federal negotiated rate to recoup facilities and administrative costs (parent agency costs), we used an administrative fee of 15% to the direct program expenses, not the full federal rate. The 15% is far below the federal rate.

We look forward to working with the State Education Department and our Foundation Corporate Office to obtain a waiver of RCM and CFR calculation requirements for the administrative fee.

**Consultant Costs:**

According to the RCM, travel expenses of consultants are not reimbursable. CUTE reported \$142 in non-reimbursable consultant travel expenses on its CFR for the fiscal year ended June 30, 2016.

**Response:**

While the expense is allowable had it been reported by an invoice of the independent contractor rather than paid direct, we agree the manner reimbursement was requested did not comply with SED's Reimbursable Cost Manual.

# State Comptroller's Comment

1. We modified our report.