

THOMAS P. DiNAPOLI
STATE COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 2, 2022

Betty A. Rosa, Ed.D.
Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Dawn Plumitallo, Ph.D.
Executive Director
Kids First Evaluation & Advocacy Center
718 The Plain Road
Westbury, NY 11590

Re: Compliance With the Reimbursable
Cost Manual
Report 2021-S-12

Dear Dr. Rosa and Dr. Plumitallo:

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 Kids First Evaluation & Advocacy Center (Kids First) to the State Education Department (SED) 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.

Background

Kids First is an SED-approved, for-profit special education provider located in Westbury. Kids First provides preschool special education services to children with disabilities who are between 3 and 4 years of age. For the fiscal year ended June 30, 2015, Kids First provided Special Education Itinerant Teacher services (referred to as the Program) to 78 children with special needs from Nassau and Suffolk counties.

The counties that use Kids First preschool special education services pay tuition to Kids First using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5% of the tuition paid. SED sets the special education rates based on financial information, including costs, reported by Kids First 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 eligibility and documentation requirements, and must meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2015, Kids First reported \$488,182 in reimbursable costs for the Program.

Results of Audit

According to the RCM, costs reported on the CFR will be considered for reimbursement provided they are reasonable, necessary, directly related to the special education program, and sufficiently documented. For the fiscal year ended June 30, 2015, we identified \$22,713 in costs that Kids First reported on its CFR that did not comply with SED's requirements for reimbursement. The ineligible costs included \$18,522 in personal service costs and \$4,191 in other than personal services (OTPS) costs.

Personal Service Costs

For the fiscal year ended June 30, 2015, Kids First reported \$428,044 in personal service costs charged to the Program. We reviewed employee time records and support for all employees charged to the Program and identified \$18,522 that did not comply with the RCM's requirements for reimbursement.

The RCM states that payroll compensation costs must be based on approved and documented payrolls that must be supported by employee time records. Kids First charged compensation for 10 employees that was not fully supported by employee time records, resulting in an overstatement of \$18,522 (\$16,392 in salary and \$2,130 in fringe benefits) charged to the Program.

Other Than Personal Service Costs

For the fiscal year ended June 30, 2015, Kids First reported \$285,998 in OTPS costs, of which \$85,785 was charged to the Program. To determine whether these expenses complied with SED's requirements for reimbursement, we judgmentally selected \$243,992 in various categories and identified \$19,988 in non-reimbursable OTPS costs. Of this, \$4,191 was charged to the Program.

The RCM states that costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. It also specifies that certain expenses are not reimbursable, such as bank fees, food and beverages for staff, and magazine subscriptions that are not program related. We found \$4,191 that was ineligible for reimbursement, including:

- \$3,635 in expenses with insufficient or missing documentation;
- \$259 for food and beverages provided at staff meetings;
- \$163 for bank services charges and other fees; and
- \$134 for magazine subscriptions that were not related to the Program.

Recommendations

To SED:

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

To Kids First:

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 costs reported by Kids First on its CFR were properly calculated, adequately documented, and allowable under SED guidelines, including the RCM and the CFR Manual. The audit covered the period from July 2014 through June 2015.

To accomplish our objective, we reviewed the RCM, CFR Manual, and related appendices that applied to the year we examined. We also evaluated the internal controls over the costs claimed on and the schedules prepared in support of the CFR submitted to SED. We evaluated Kids First's internal controls as they related to costs it reported on the CFR. We reviewed Kids First's CFR for the fiscal year ended June 30, 2015, as well as relevant financial records for the audit period. We determined the data was sufficiently reliable for our use in accomplishing our audit objective. We interviewed Kids First officials and reviewed Kids First's policies to obtain an understanding of its financial practices for reporting costs on the CFR. For personal service costs, we reviewed time records and support for all employees charged to the Program. For OTPS costs, we selected a judgmental sample and reviewed costs considered to be high risk and reimbursable in limited circumstances based on prior audit report findings, such as food and service fees. The results of this judgmental sample cannot be projected to the population.

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. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our professional judgment, these duties do not affect our ability to conduct this independent performance audit of SED's oversight and administration of Kids First's compliance with the RCM and CFR Manual.

Reporting Requirements

We provided a draft copy of this report to SED and Kids First 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. SED and Kids First officials agreed with the audit recommendations and indicated the actions they will take to address them.

Within 180 days after 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 Theresa Podagrosi, Amanda Eveleth, Jennifer Bordoni, Nancy Hobbs, and Joseph Southworth.

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

Sincerely,

Brian Reilly
Audit Director

cc: Sharon Cates-Williams, State Education Department
Jeanne Day, State Education Department
James Kampf, State Education Department
Phyllis Morris, State Education Department
Jerry Nestlerod, State Education Department
Brian Zawistowski, State Education Department

Agency Comments - State Education Department



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

EXECUTIVE DEPUTY COMMISSIONER
(518) 473-8381
E-mail: Sharon.Cates-Williams@nysed.gov

February 25, 2022

Mr. Brian Reilly
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State St, 11th Floor
Albany, NY 12236

Dear Mr. Reilly:

The following is the New York State Education Department's (SED) response to the draft audit report, 2021-S-12, *Kids First Evaluation & Advocacy Center (Kids First) - Compliance with the Reimbursable Cost Manual*.

Recommendation 1:

"Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on Kids First's CFR and to Kids First's 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 Kids First 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 Kids First's 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, Regulations, and the Reimbursable Cost Manual (RCM). Furthermore, SED will alert Kids First 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 Brian Zawistowski, Assistant Director of the Rate Setting Unit, at (518) 474-3227.

Sincerely,

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

Sharon Cates-Williams

c: Christopher Suriano
Suzanne Bolling
Brian Zawistowski
James Kampf
Jerry Nestleroad
Jeanne Day
Nell Brady

Agency Comments - Kids First

KIDS FIRST EVALUATION & ADVOCACY CENTER INC.

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February 18, 2022

Mr. Brian Reilly
Audit Director
State of New York
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. Reilly,

This letter will serve as a response from the draft audit report 2021-S-12 in reference to the Compliance with the Reimbursable Cost Manual audit for Kids First Evaluation & Advocacy Center (Kids First). Kids First would like to thank the staff for the professionalism and recommendations throughout the audit process.

Since the audit year 14/15, Kids First has implemented many controls which have strengthened the internal controls and compliance with the regulatory guidance. The controls include, but are not limited to, enhanced tracking and storage of the employee files. In addition, we have implemented a system to minimize and segregate non-allowable costs with the agency.

Thank you again for your recommendations. Kids First continually strives to improve our systems and therefore improve the delivery of services for the children we serve.

Sincerely,



Dawn Plunitallo, PhD
Executive Director