



**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 Upstate Cerebral Palsy**



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# Executive Summary

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## Purpose

To determine whether the costs reported by Upstate Cerebral Palsy (UCP) on its Consolidated Fiscal Reports (CFRs) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (Manual). Our audit covered the year ended December 31, 2012.

## Background

UCP is an SED-approved not-for-profit special education provider located in Utica, New York. UCP provides preschool special education services to children with disabilities between the ages of three and five years. UCP is reimbursed for preschool special education program services through rates set by SED. These reimbursement rates are based on financial information, including costs, that UCP reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with Manual requirements. For the calendar year ended December 31, 2012, UCP reported about \$7.9 million in reimbursable costs on its CFR for three preschool special education programs.

## Key Findings

UCP claimed \$97,781 in non-allowable costs for the year covered by our audit. These costs included:

- \$83,905 in personal service costs consisting of ineligible bonuses, executive compensation above the regional median allowable salary, and non-program-related costs; and
- \$13,876 in non-personal service costs that were either non-program related, not allowable, or unsupported by proper documentation.

## Key Recommendations

### To SED:

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

### To UCP:

- 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

[Dynamic Center Inc.: Compliance With the Reimbursable Cost Manual \(2014-S-3\)](#)

[La Salle School: Compliance With the Reimbursable Cost Manual \(2012-S-68\)](#)

**State of New York**  
**Office of the State Comptroller**

**Division of State Government Accountability**

November 5, 2015

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

Mr. Louis Tehan  
President and CEO  
Upstate Cerebral Palsy  
1020 Mary Street  
Utica, NY 13501

Dear Ms. Elia and Mr. Tehan:

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, entitled *Compliance With the Reimbursable Cost Manual*, of our audit of the costs submitted by Upstate Cerebral Palsy to the State Education Department for purposes of establishing preschool special education tuition reimbursement rates. These rates are used to bill public funding sources that are supported by State aid payments. 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*  
*State Government Accountability*

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This report is also available on our website at: [www.osc.state.ny.us](http://www.osc.state.ny.us)

## Background

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Upstate Cerebral Palsy (UCP), a not-for-profit entity located in Utica, New York, is authorized by the State Education Department (SED) to provide preschool special education services to children with disabilities between the ages of three and five years. For the calendar year ended December 31, 2012, UCP operated three SED-funded rate-based preschool programs: Preschool Special Class – over 2.5 hours per day; Preschool Integrated Special Class Services – over 2.5 hours per day; and Preschool Special Education Itinerant Teacher Services (collectively referred to as the Programs). The Programs served 427 children in five New York counties (Hamilton, Herkimer, Madison, Oneida, and Otsego). UCP received \$7.7 million in funding from the State and counties in support of these special education services.

The counties that use UCP's special education services pay tuition using reimbursement rates set by SED. The State, in turn, reimburses counties 59.5 percent of the tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by UCP 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 (Manual) regarding the eligibility of costs and documentation requirements. In addition, costs must comply with the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual. For the calendar year ended December 31, 2012, UCP reported approximately \$7.9 million in reimbursable costs for the Programs.

## Audit Findings and Recommendations

According to the Manual, 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 calendar year ended December 31, 2012, we identified \$97,781 in costs reported by UCP that did not comply with SED's requirements for reimbursement, including \$83,905 in personal service costs and \$13,876 in non-personal service costs. The following table summarizes the non-allowable costs we identified.

| Reason Not Allowed                                               | Reported Costs  |
|------------------------------------------------------------------|-----------------|
| Personal Service Costs:                                          |                 |
| Bonuses Not Based on Merit and Paid to Non-Direct Care Employees | \$63,009        |
| Executive Compensation and Benefits Exceeding Allowed Amounts    | \$19,510        |
| Non-Program-Related Costs                                        | \$1,386         |
| <b>Subtotal Personal Service Costs</b>                           | <b>\$83,905</b> |
| Non-Personal Service Costs:                                      |                 |
| Non-allowable and Inadequately Documented Costs                  | \$5,769         |
| Undocumented Vehicle Costs                                       | \$4,237         |
| Ineligible Food Costs                                            | \$2,802         |
| Fines and Penalties                                              | \$1,068         |
| <b>Subtotal Non-Personal Service Costs</b>                       | <b>\$13,876</b> |
| <b>Total Non-Allowable Costs</b>                                 | <b>\$97,781</b> |

### Personal Service Costs

We identified \$83,905 in non-allowable personal service costs that UCP claimed for the year ended December 31, 2012. This included \$63,009 in bonuses that were not merit-based or were paid to non-direct care employees; \$19,510 in salary and benefits that included compensation above the regional median allowable amounts for the Executive Director and two Assistant Executive Directors; and \$1,386 in administrative salaries that were not related to the Programs.

#### *Ineligible Bonuses*

The Manual provides guidance about reimbursable bonuses, and describes bonus compensation as a non-recurring lump sum payment in excess of the regularly scheduled salary. According to the Manual, bonus compensation may be reimbursed if: it is based on merit and supported by performance evaluations; it is restricted to direct care titles; and it is not directly related to hours worked.

We identified \$63,009 in non-allowable bonus payments UCP claimed as compensation on its CFR. The bonus payments were not based on merit (\$58,609) or were paid to non-direct care employees (\$4,400). UCP did not have formal policies or procedures linking employee performance evaluations to bonus payments. The only documentation UCP had that addressed bonus compensation was a memorandum UCP sent to employees. According to the memorandum, bonus payments were based solely on hours worked. Moreover, the memorandum did not indicate bonus payments were in any way based on merit or related to employee performance.

### *Excessive Compensation and Life Insurance Costs*

The Manual states that compensation (including salaries and fringe benefits) for Executive Directors and Assistant Executive Directors should be consistent with the regional median compensation for comparable administration job titles of public school districts, as determined and published annually by SED. Accordingly, reimbursement of employee compensation for these job titles shall not exceed the median salaries paid to comparable personnel in regional public schools for similar work and hours of employment.

The salaries UCP claimed for its Executive Director and two Assistant Executive Directors exceeded SED's median allowable compensation for these positions. Based on these limits, we identified non-allowable costs of \$17,785 allocated to the Programs. (Note: Prior to our audit, SED adjusted the amount of executive salary costs reported by UCP.)

The Manual also states that salary reimbursement for any employee is limited to 1.0 Full-Time Equivalent (FTE) position. UCP officials reported more than one FTE for the Executive Director, resulting in additional non-allowable salary costs of \$50. (Note: Prior to our audit, SED adjusted the amount of executive salary costs reported by UCP.)

Further, according to the Manual, benefits including life insurance for individual employees or officers/directors must be proportionately similar to those received by other classes or groups of employees. We identified \$1,675 in life insurance premiums claimed by UCP for life insurance for its Executive Director that was not proportionally similar to the life insurance offered to all UCP employees. Therefore, these costs are not reimbursable.

### *Non-Program-Related Costs*

According to the Manual, costs will be reimbursed provided such costs are reasonable, necessary, and directly related to the education programs. We identified \$1,386 in salaries claimed by UCP for employees who worked on non-SED preschool special education programs. The employees worked on UCP's residential programs. Therefore, these costs are not reimbursable.

## **Non-Personal Service Costs**

We identified \$13,876 in non-personal service costs that did not meet the Manual's requirements, as follows:



### *Non-Allowable and Inadequately Documented Costs*

The Manual states that costs will be reimbursable provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. We identified \$5,769 in costs that were not in compliance with these guidelines. Specifically, UCP claimed:

- \$3,266 for payments to an affiliated company for consulting services for a program funded by the Office for People With Developmental Disabilities. This program was unrelated to the preschool special education programs;
- \$1,367 for costs for repairs and maintenance, expensed equipment, and supplies and materials with no supporting documentation;
- \$691 for costs for a UCP facility that serves programs other than preschool special education or administration;
- \$314 for reimbursements to students in residential programs unrelated to preschool special education;
- \$77 for payments for two personal telephone lines; and
- \$54 for bank overdraft fees.

### *Undocumented Vehicle Costs*

According to the Manual, vehicle costs, such as fuel and repairs, are reimbursable if they are supported by vehicle logs that document both the vehicle's use by the funded program and the costs incurred. Vehicle logs must include date and time of travel, destination, mileage, and purpose of travel. Claimed costs must also be reasonable and necessary. In total, we identified \$4,237 in ineligible vehicle costs.

Specifically, UCP claimed \$2,255 in costs related to a leased vehicle for its Executive Director; however, the Executive Director did not maintain a vehicle log. Therefore, the following related costs (totaling \$2,255) are not reimbursable: \$1,270 in vehicle operating costs; \$793 in lease payments; and \$192 in insurance premiums.

Also, the Manual states the use of privately owned vehicles for program business by employees is reimbursable provided such use is documented and necessary. We identified non-allowable personal vehicle costs for three executives and one consultant. These four individuals did not maintain vehicle logs to document the business use of their personal vehicles. Therefore, the \$1,982 in claimed costs for the use of their personal vehicles is not reimbursable.

### *Ineligible Food Costs*

According to the Manual, the cost of food to anyone but students is not reimbursable. We identified \$2,802 in non-allowable food costs UCP claimed on its CFR for staff and volunteers.



### *Fines and Penalties*

According to the Manual, costs from violations of, or failure by the entity to comply with, laws or regulations are not reimbursable. UCP paid compensatory damages totaling \$1,068 to two former employees because of a failure to comply with the law. These costs are not reimbursable.

## **Recommendations**

### **To SED:**

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

### **To UCP:**

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

## **Audit Scope and Methodology**

We audited the costs UCP reported on its CFR for the calendar year ended December 31, 2012. 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.

To accomplish our objective and assess internal controls related to our objective, we interviewed SED officials to obtain an understanding of the CFR and the policies and procedures contained in SED's guidelines. We interviewed UCP officials and staff to obtain an understanding of their financial practices relating to the expenses reported on UCP's CFR. We reviewed UCP's CFR for the year ended December 31, 2012, as well as its audited financial statements for the same period. We visited and performed observations at one of the preschool facilities in operation. We reviewed a judgmental sample of Program costs to determine whether they were supported, program appropriate, and reimbursable. The sample included selected high-cost items as well as selected items only reimbursable in limited circumstances, such as food and entertainment expenses. We considered information SED and UCP provided through May 27, 2015.

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 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

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The audit was performed pursuant to the State Comptroller's authority under 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

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We provided a draft copy of this report to SED and UCP officials for their review and formal comment. We considered their comments in preparing this report and have included them at the end of it. (Note: UCP responded by reformatting our draft report and inserting their comments onto selected pages of our draft report. Accordingly, we appended the pages with UCP's comments to the end of this report.) In their response, SED officials agreed with our audit recommendations and indicated the actions they will take to address them. In UCP's response, officials challenged proposed audit disallowances pertaining to bonuses and certain non-personal service costs. Our rejoinders to several UCP 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 the State Education Department 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.

## Contributors to This Report

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**Andrea Inman**, Audit Director  
**Dave Fleming**, Audit Manager  
**Daniel Towle**, Audit Supervisor  
**Jessica Turner**, Examiner-in-Charge  
**Lauren Bizzarro**, Senior Examiner  
**Karen Ellis**, Staff Examiner

## Division of State Government Accountability

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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

## Upstate Cerebral Palsy Schedule of Submitted and Disallowed Program Costs Calendar Year 2012

| Program Costs                      | Amounts<br>Submitted<br>Per CFR | Amounts<br>Disallowed | Amounts<br>Remaining | Notes to<br>Exhibit |
|------------------------------------|---------------------------------|-----------------------|----------------------|---------------------|
| Personal Services:                 |                                 |                       |                      |                     |
| Direct Care                        | \$6,239,628                     | \$58,609              | \$6,181,019          |                     |
| Agency Administration              | 520,442                         | 25,296                | 495,146              |                     |
| <b>Total Personal Services</b>     | <b>\$6,760,070</b>              | <b>\$83,905</b>       | <b>\$6,676,165</b>   | <b>A - E</b>        |
| Non-Personal Services:             |                                 |                       |                      |                     |
| Direct Care                        | \$927,347                       | \$2,656               | \$924,691            |                     |
| Agency Administration              | 262,502                         | 11,220                | 251,282              |                     |
| <b>Total Non-Personal Services</b> | <b>\$1,189,849</b>              | <b>\$13,876</b>       | <b>\$1,175,973</b>   | <b>E - J</b>        |
| <b>Total Program Costs</b>         | <b>\$7,949,919</b>              | <b>\$97,781</b>       | <b>\$7,852,138</b>   |                     |

## Notes to Exhibit

The following Notes refer to specific sections of the Reimbursable Cost 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 UCP officials during the course of the audit.

- A. Section II.14.A.10 - Bonus compensation shall mean a non-recurring and non-accumulating (i.e., not included in base salary of subsequent years) lump sum payment(s) in excess of regularly scheduled salary which is not directly related to hours worked. Bonus compensation is restricted to direct care titles/employees only and will not be reimbursed if paid to subcontractors and/or independent consultants. Bonus compensation may be reimbursed if based on merit as measured and supported by employee performance evaluations and does not exceed 5 percent of salary for any direct care employee.
- B. Section II.14.A.4.a - Compensation (including salaries and fringe benefits) for Executive Directors and Assistant Executive Directors should be consistent with the regional median compensation for comparable administration job titles of public school districts, as determined and published annually by SED. Reimbursement of employee compensation for these job titles shall not exceed the median salaries paid to comparable personnel in regional public schools for similar work and hours of employment.
- C. Section II.14.A.4.b - For any individual who is employed in any job title or combination of job titles by the entity operating the approved programs, compensation up to 1.0 FTE for that individual in total, will be considered in the calculation of the portion of 1.0 FTE reimbursable in the tuition rates.
- D. Section II.14.B.2.c - Benefits including pensions, life insurance, and Tax Sheltered Annuities for individual employees or officers/directors are proportionately similar to those received by other classes or groups of employees.
- E. Section II - Costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program and are sufficiently documented.
- F. Section II.23.C - Costs of food provided to any staff, including lunchroom monitors, are not reimbursable.
- G. Section III.J.2 - Vehicle use must be documented with individual vehicle logs that include at a minimum: the date, time of travel, to and from destinations, mileage between each, and purpose of travel and name of traveler. If the vehicle was assigned to an employee, also list the name of the employee to whom it was assigned. The annual mileage for program purposes and repairs and maintenance costs for each vehicle should be summarized and maintained.
- H. Section II.59.D.3 - The use of privately owned vehicles for program business by employees is reimbursable provided such use is documented and necessary. Such use will be compensated at a rate not to exceed the mileage rate allowed by the IRS for auto travel or for the use of privately owned motorcycles. Private car mileage reimbursements in excess of the allowable IRS reimbursement rate per mile are subject to withholding and reporting requirements. Auto repair, depreciation, insurance, rental, garage, and maintenance costs

incurred by employees for privately owned vehicles are not reimbursable.

- I. Section II.22 - Costs resulting from violations of or failure by, the entity to comply with Federal, State and/or local laws and regulations, are not reimbursable.
- J. Section III.1.D - All purchases must be supported with invoices listing items purchased and indicating date of purchase and date of payment, as well as cancelled checks. Costs must be charged directly to specific programs whenever possible.

# 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

October 2, 2015

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, 2014-S-71, Compliance with the Reimbursable Cost Manual: Upstate Cerebral Palsy (UCP).

**Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to UCP's 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 UCP officials of the pertinent SED guidelines that relate to the deficiencies we identified.**

We agree with this recommendation. The Department will continue to provide technical assistance whenever requested and will strongly recommend that UCP officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual. In addition, Consolidated Fiscal Report (CFR) training is available at six locations across the State and online on the Department's webpage. The training is recommended for all individuals signing CFR certification statements, namely Executive Directors and Certified Public Accountants, and is required for preschool special education providers upon approval and reapproval. Furthermore, the Department intends to require that the training be mandatory for all providers.



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 "Sharon Cates-Williams".

Sharon Cates-Williams

c: James P. DeLorenzo  
Suzanne Bolling

# Agency Comments - Upstate Cerebral Palsy

2014-S-71

We identified \$70,219 in non-allowable bonus payments UCP claimed as compensation on its CFR. The bonus payments were not based on merit (\$65,819) or were paid to non-direct care employees (\$4,400). UCP did not have formal policies or procedures linking employee performance evaluations to bonus payments. The only documentation UCP had that addressed bonus compensation was a memorandum UCP sent to employees. According to the memorandum, bonus payments were based solely on hours worked. Moreover, the memorandum did not indicate bonus payments were in any way based on merit or related to employee performance.

The lump sum payment of \$65,819 which related to the 2012 – 2013 school year was accrued in December of 2012, and consequently only \$58,609 was paid out on April 29<sup>th</sup>, 2013. The accrual for \$7,210 was reversed out on April 30<sup>th</sup>, 2013 and accounted for in the 2013 CFR and never paid to employees.

Although the bonus must be tied to performance, the RCM did not require a separate performance appraisal. Performance appraisals were made available to support the bonus.

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Comment  
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Comment  
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## *Excessive Compensation and Life Insurance Costs*

The Manual states that compensation (including salaries and fringe benefits) for Executive Directors and Assistant Executive Directors should be consistent with the regional median compensation for comparable administration job titles of public school districts, as determined and published annually by SED. Accordingly, reimbursement of employee compensation for these job titles shall not exceed the median salaries paid to comparable personnel in regional public schools for similar work and hours of employment.

The salaries UCP claimed for its Executive Director and two Assistant Executive Directors exceeded SED's median allowable compensation for these positions. Based on these limits, we identified non-allowable costs of \$17,785 allocated to the Programs. (Note: Prior to our audit, SED adjusted the amount of executive salary costs reported by UCP.)

The Manual also states that salary reimbursement for any employee is limited to 1.0 Full-Time Equivalent (FTE) position. UCP officials reported more than one FTE for the Executive Director, resulting in additional non-allowable salary costs of \$50. (Note: Prior to our audit, SED adjusted the amount of executive salary costs reported by UCP.)

Further, according to the Manual, benefits including life insurance for individual employees or officers/directors must be proportionately similar to those received by other classes or groups of employees. We identified \$1,675 in life insurance premiums claimed by UCP for life insurance for its Executive Director that was not proportionally similar to the life insurance offered to all UCP employees. Therefore, these costs are not reimbursable.

We acknowledge that the Executive Director's salary is and has been above the "median" salary allowed by SED. SED has already accounted for this adjustment in the rate. It should be noted the median salary for SED does not account for the diversity of "non" SED programs, which are 2/3 of the Agency budget. Further, the Board engages in independent salary consultants to study and compare Executive salaries in order to establish executive pay.

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Comment  
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Comment  
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Division of State Government Accountability

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\*See State Comptroller's Comments on Page 18.



### *Non-Program-Related Costs*

According to the Manual, costs will be reimbursed provided such costs are reasonable, necessary, and directly related to the education programs. We identified \$1,386 in salaries claimed by UCP for employees who worked on non-SED preschool special education programs. The employees worked on UCP's residential programs. Therefore, these costs are not reimbursable.

### **Non-Personal Service Costs**

We identified \$13,876 in non-personal service costs that did not meet the Manual's requirements, as follows:

#### *Non-Allowable and Inadequately Documented Costs*

The Manual states that costs will be reimbursable provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. We identified \$5,769 in costs that were not in compliance with these guidelines. Specifically, UCP claimed:

- \$3,266 for payments to an affiliated company for consulting services for a program funded by the Office for People With Developmental Disabilities. This program was unrelated to the preschool special education programs;
- \$1,367 for costs for repairs and maintenance, expensed equipment, and supplies and materials with no supporting documentation;
- \$691 for costs for a UCP facility that serves programs other than preschool special education or administration;
- \$314 for reimbursements to students in residential programs unrelated to preschool special education;
- \$77 for payments for two personal telephone lines; and
- \$54 for bank overdraft fees.

**The \$3,266 payment to an affiliated company was the result of an administrator assisting with the Promise Preschool program during 2012. The employee's performance evaluation discusses the work related to the Promise Preschool program and was provided.**

**The \$691 cost related to the Maintenance Department space, which we believe is agency administration and documentation was provided.**

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Comment  
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Comment  
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## State Comptroller's Comments

1. Based on documentation provided by UCP, we modified our report to reduce the bonus disallowance of \$65,819 to direct care employees by \$7,210, because of the following events. In April of 2013, UCP reversed \$7,210 in (unpaid) bonuses that were previously accrued in 2012 and claimed on UCP's 2012 CFR (the year reviewed by the audit). As a result, the \$7,210 reversal was subsequently accounted for in UCP's 2013 CFR. We therefore reduced the disallowance for bonuses by \$7,210 for 2012, resulting in a final recommended disallowance of \$58,609 (\$65,819 - \$7,210).
2. In their response, UCP officials stated that performance appraisals were made available to support UCP's bonus payments. Although UCP made performance appraisals available, UCP's bonus payments were not based on the appraisals or linked to employee performance. As stated on page six of our report, according to a UCP memorandum distributed to all UCP employees, bonus payments were based solely on hours worked. Specifically, the memorandum stated: "the Board of Directors has approved a distribution of \$525 (minus applicable taxes / deductions) to eligible employees. To be eligible for the distribution you must have worked 20 hours or more per week in 2012; hired on or before December 31st, 2012 and actively working. Employees that meet the same criteria that worked 10 to 20 hours in 2012 will receive \$250 and those employees that worked 0-10 hours will receive \$50 and a \$25 gift certificate." However, as noted on page five of our report, according to SED's Reimbursable Cost Manual, bonus compensation may be reimbursed if it is based on merit and not directly related to hours worked. We, therefore, maintain that the amounts in question should be disallowed.
3. As noted on page six of our report, prior to our audit, SED adjusted the amount of executive salary costs reported by UCP.
4. The \$17,785 in non-allowable executive compensation that we reported relates to the costs UCP claimed for the SED preschool programs included in our audit scope.
5. UCP officials told us that these consulting services were related to an Office for People With Developmental Disabilities (OPWDD) program. Subsequently, officials provided the consultant's performance evaluation which cited some work related to transitioning a preschool program to a company owned by the consultant's employer. This would have primarily benefitted the consultant's employer. Further, UCP did not provide documentation of the allocation of time the consultant spent serving the OPWDD and SED preschool programs and how it corresponded to the amount of costs reported on the CFR. We, therefore, maintain that the amounts in question should be disallowed.
6. We acknowledge that costs related to Maintenance Department space shared by multiple programs can be allocated across those programs. However, the Maintenance Department space referred to by UCP is located in a facility housing non-SED programs. UCP provided us with the facility's floor plan which showed designated storage space. However, UCP did not provide us with any evidence that the storage space was used for maintenance equipment or supplies related to the SED preschool programs – none of which are located in this facility. We, therefore, maintain that the costs in question should be disallowed.