



STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

February 25, 2014

Dr. John B. King, Jr.  
Commissioner  
New York State Education Department  
89 Washington Avenue  
Room 125 EB  
Albany, NY 12234

Re: Report 2012-0052

Dear Dr. King:

Our Office examined<sup>1</sup> grant payments made by the New York State Education Department (Department) to SCO Family of Services (SCO) for the Extended School Day Program (ESD) under contracts C401437 and C401438 for the grant year July 1, 2011 through June 30, 2012. During the grant year, the Department paid SCO \$634,544.

The objective of our examination was to determine if the Department paid SCO for expenses that were appropriate and allowable under the terms and conditions of the contracts and all applicable guidelines. These guidelines include the Department's Guide to Grants Administration and Implementation Resources, Fiscal Guidelines for Federal and State Grants, and the Federal OMB Circular A-122 Cost Principles for Non-Profit Organizations (collectively grant guidelines).

**A. Results of Examination**

We found the Department paid SCO \$194,320 (or 31 percent of the total reimbursements) during the grant year for expenses that were not related to the operation of the ESD program, not necessary or not allowable. These inappropriate payments occurred because the Department did not have an effective monitoring system in place to ensure it paid SCO only for expenses that were appropriate and allowable under the contracts. The Department did not request, receive or review supporting documentation prior to approving these payments. In addition, we found SCO management and program staff was not familiar with the terms and conditions of the contracts.

In addition to the payments for the period we examined, the Department paid SCO an additional \$732,507 for a total of \$1,367,051 from the grant's start date of October 1, 2010 through June

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<sup>1</sup> We performed our examination in accordance with the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, as well as Article II, Section 8, and Article VII, Section 111 of the State Finance Law.

30, 2013. If the conditions we identified existed before and after the grant year we examined, we estimate the Department may have paid SCO an additional \$227,077 (\$732,507 x 31 percent) for expenses that were not related to the operation of the ESD program, not necessary or not allowable under the contracts.

We shared a draft report with Department officials and considered their comments (Attachment A) in preparing this final report. The response of the State Comptroller to the Department's response is included as Attachment B.

In its response to our draft report, Department officials agreed with our findings and recommendations and stated they would recover the \$194,320 in overpayments. They also stated the Department is making every effort to improve its oversight of the ESD grants and grant contracts. However, on January 17, 2014 the Department submitted a \$78,947 voucher to our Office for the final payment to SCO for contract C401437 the grant year that ended June 30, 2013. Our review of this voucher found the same conditions identified in our examination. The Department could not provide any evidence it requested, received or reviewed supporting documentation to ensure the payment was correct prior to approving the payment. The voucher was returned to the Department unpaid.

## **B. Background and Methodology**

The Department awarded SCO two contracts totaling \$2,740,200 for the period October 1, 2010 through June 30, 2014. Under the contracts, SCO provides ESD programs at New York City middle schools MS136 and MS35 in Brooklyn, New York. The ESD programs may operate before and after school, during holidays, and recess. The ESD programs provide academic, arts and music activities for children enrolled in the programs. Under the contracts, the Department reimburses SCO for necessary expenses for services provided during the ESD programs' approved operating hours and for the approved student population.

To perform our examination, we reviewed vouchers, invoices, employee time records, bank records and other relevant documentation to support expenses claimed by SCO. We also interviewed Department officials and program staff and SCO management and program staff.

## **C. Details of Findings**

### **Expenses Not Allowable Under the Contracts - \$186,726**

The Department paid SCO \$615,794 in expenses claimed for professional and support salaries, services, supplies and materials, travel, and employee benefits for the grant year. Of this amount, we identified \$186,726 in expenses not allowable under the contracts. These include:

- \$141,493 in employee salaries for services performed outside the ESD programs' approved hours of operation and approved student population or not directly related to the ESD programs. In total, SCO claimed 7,609 staff hours (or 31 percent of the total hours claimed) for services outside the ESD programs' approved parameters. Specifically, the Department paid SCO:
  - \$29,360 for three instructors who worked under a different grant.
  - \$7,424 for security guard services after the ESD program ended for the day.
  - \$3,173 for a fitness instructor who taught an adult aerobics class.
  - \$11,188 in direct salary expenses for the SCO Educational Coordinator who did not work under the ESD program.
  - \$90,348 for ESD program staff hours worked when the program was not operating.
- \$15,270 for employee benefits related to the above inappropriately claimed salaries.
- \$15,691 for health insurance benefits SCO (i) claimed for employees for whom it did not provide health insurance or (ii) did not properly allocate according to the terms and conditions of the contracts.
- \$10,226 for field trips for students not enrolled in the ESD program.
- \$4,046 for miscellaneous expenses not allowed under grant guidelines.

#### **Payment for Improper Procurement of Services - \$2,670**

The Department paid SCO \$2,670 for three claims for deejay services payable to "NBR Muzik." We reviewed the cancelled checks and found they were endorsed by an SCO program coordinator who is also an employee of NBR Muzik. The Department's Grant Guidelines and SCO's Corporate Compliance Policy do not allow SCO to contract with its employees for services. Since the contracts require SCO to comply with all applicable guidelines, these expenses are not allowed under the contracts.

#### **Recalculation of Indirect Costs - \$4,924**

The contracts allow SCO to claim indirect costs at 2.6 percent of certain ESD direct costs. Based on the findings identified in this report, we recalculated the indirect costs and found the Department paid SCO \$4,924 more for indirect costs than it was entitled to for the grant year.

**Recommendations**

- 1) Recover the \$194,320 overpayment identified in this report.*
- 2) Review other payments under the grants and recover any overpayments.*
- 3) Design and implement an effective risk-based monitoring system which allows the Department to ensure payments made to SCO and other grantees are appropriate.*
- 4) Ensure grantees adhere to the terms and conditions of current and future grant contracts.*
- 5) Enhance the current training program to assist grantees in familiarizing themselves with applicable guidelines.*

We would appreciate your response to this report by March 25, 2014 indicating any actions planned to address the recommendations in this report. We thank the management and staff of the New York State Education Department and SCO Family of Services for the courtesies and cooperation extended to our auditors.

Sincerely,

Bernard J. McHugh  
Director of State Expenditures

Enc: Attachment A  
Attachment B

cc: Maria Guzman, Director of Audit Services



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  
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January 29, 2014

Mr. Bernard J. McHugh  
Director of State Expenditures  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236

Dear Mr. McHugh:

The following is the New York State Education Department's (Department) response to the draft audit report (2012-0052) of SCO Family of Services.

Most of the observations go beyond Department oversight responsibility and deal with internal control weakness within SCO Family of Services processes for paying for the ESD/SVP related services. However, we are responding to the draft audit as written.

We also acknowledge that it would be desirable to engage in more program monitoring, and are evaluating our capacity to enhance monitoring. The Department has a long standing process for administering state and federal grants that includes pre-approval of a program narrative, pre-approval of a budget, and review of final expenditure reports. The Department also provides online guidance for grant recipients.

**Recommendation 1: Recover the \$194,320 overpayment identified in the report.**

We agree with this recommendation. The Department will take steps to recover the amount of overpayment.

**Recommendation 2: Review other payments under the grants and recover any overpayments.**

We agree with this recommendation. The Department will develop a plan to review the 2010-11, 2012-13, and 2013-14 program year expenditures.

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Comment  
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**Recommendation 3: Design and implement an effective risk-based monitoring system which allows the Department to ensure payments made to SCO and other grantees are appropriate.**

We agree with this recommendation. The Department is making every effort to improve its oversight of the Extended School Day/School Violence Prevention (ESD/SVP) grants and grant contracts. Each year we request the grantees submit a final expenditure report. For the 2012-13 program year we have required that all of the ESD/SVP grant programs submit long form expenditure report for a more in depth Department review prior to the release of the final payment. In addition, the program office has scheduled a monitoring visit to SCO and is developing a schedule for monitoring 20% of programs during the 2013-2014 program year.

**Recommendation 4: Ensure grantees adhere to the terms and conditions of current and future grant contracts.**

We agree with this recommendation. The Department is making every effort to improve its monitoring of the Extended School Day/School Violence Prevention (ESD/SVP) grants and grant contracts. The activities described below will continue to improve the Department's knowledge about the implementation of each ESD/SVP program and ability to identify and resolve issues as they arise.

- The Annual Program Report is a mandatory item for all of the ESD/SVP programs to complete via a web-based survey. It includes: fiscal spend down information, yearly data on student attendance, achievement and behaviors; activities; staffing and hours of operation, professional development, and efforts and progress toward meeting stated program objectives. Department program staff review the report for each of the ESD/SVP grantees for verification of program implementation and identification of programmatic problems that may also have fiscal implications that need to be resolved by the Department. Department program staff follow-up with programs if/when discrepancies are identified or support is requested. A copy of the report is included in the grantee's folder.
- We provide an on-site Annual Coordinator's meeting each fall that all ESD/SVP grantees are required to attend. All ESD/SVP updates are presented and any necessary professional development is presented; based on the requests from the annual program report and other communications with the grantees. Included in the meeting is a presentation on Department guidelines for fiscal and programmatic requirements.
- Department staff have been added to the ESD/SVP team to support the ESD/SVP grantees with technical assistance.

**Recommendation 5: Enhance the current training program to assist grantees in familiarizing themselves with applicable guidelines.**

We agree with this recommendation. There is an onsite Annual Coordinator's meeting each fall which all ESD/SVP grantees are required to attend. All ESD/SVP updates are presented and any necessary professional development is offered; based on the requests from the annual program report and other communications with the grantees. Included in the meeting is a presentation on the Department's fiscal guidelines. We can make this a more in-depth presentation. The Department's fiscal information that is shared is located at the following link <http://www.oms.nysed.gov/cafe/guidance/Guide.html>. The specific citation is Section 11 of *A Guide to Grants Administration and Implementation Resources*. The Guide is accessible from the Grants

Finance website. In addition, each year there is also training, offered by the Department, which presents the federal fiscal guidelines.

In addition, Department staff is developing a list of Department resources and guidelines that grantees should be familiar with in order to appropriately operate an ESD/SVP program. This document will be distributed to all funded ESD/SVP programs.

If you have any questions regarding this letter, please contact Lori Genito, Assistant in the Office of Student Support Services at (518) 486-2308.

Sincerely,

A handwritten signature in black ink, appearing to read "Sharon Cates-Williams". The signature is fluid and cursive, with the first name "Sharon" being more prominent.

Sharon Cates-Williams

c: Commissioner King  
Lori Genito  
Sharon Holder  
Maria Guzman

**State Comptroller Comment on Auditee Response**

1. Although a weakness in controls exists at SCO, it is the Department's responsibility to have an effective system in place to properly monitor payments to ensure the grantee adheres to all contract terms and conditions.