

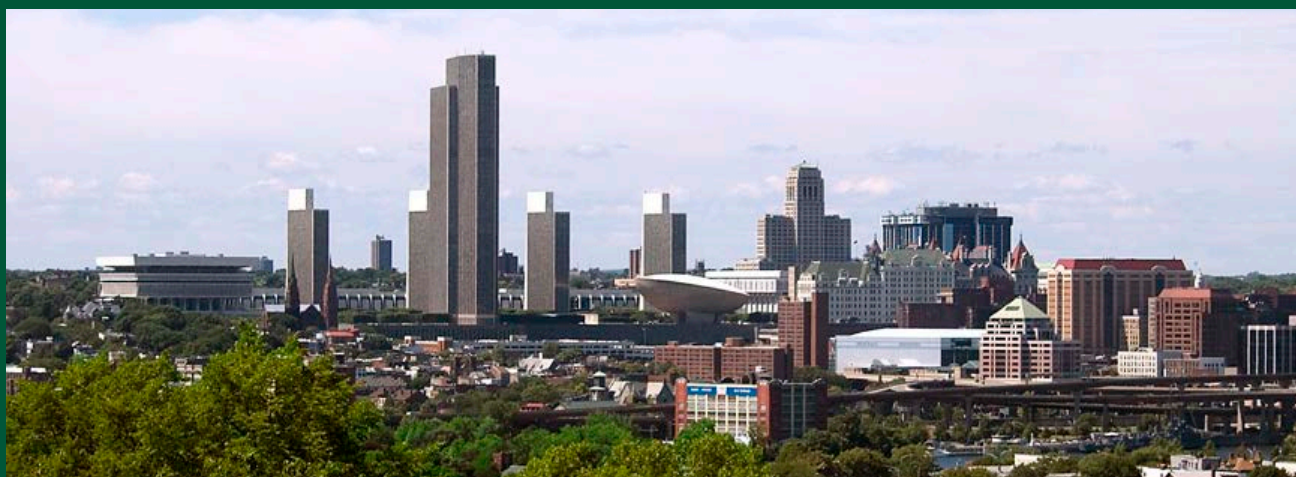


New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Compliance With the Reimbursable Cost Manual

State Education Department Unity House of Troy



Executive Summary

Purpose

To determine whether the costs submitted by Unity House of Troy (Unity) on its Consolidated Fiscal Report (CFR) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (RCM). Our audit covered the calendar year ended December 31, 2012.

Background

Unity is an SED-approved, not-for-profit special education provider located in Troy, New York. Unity provides a variety of services to the community including preschool special education services to children with disabilities between the ages of three and five years. Unity is reimbursed for preschool special education services through rates set by SED. The reimbursement rates are based on financial information, including costs, that Unity reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with RCM requirements. For the calendar year ended December 31, 2012, Unity reported approximately \$6.85 million in reimbursable costs on its CFR for the rate-based preschool special education programs it operated.

Key Findings

For the calendar year ended December 31, 2012, Unity claimed \$404,952 in ineligible costs for its rate-based preschool special education programs. The ineligible costs included:

- \$322,258 in personal service costs (including \$312,543 in salary and fringe benefits and \$9,715 in severance pay). Specifically, Unity claimed two teacher aide positions that were already included on the CFR in a different category, too many hours per day for certain direct care positions, and the personal service costs for one of its classrooms for a full year, although the classroom operated for only part of the year; and
- \$82,694 in other than personal service costs, which included \$46,878 in costs that were incorrectly calculated, \$13,653 in costs that were not related to the programs, \$11,143 in gifts, \$5,132 in food, \$3,698 in fundraising, and \$2,190 in other non-reimbursable costs.

Key Recommendations

To SED:

- Review the disallowances identified by our audit and adjust Unity's CFRs and tuition reimbursement rates, as appropriate.
- Remind Unity officials of the pertinent SED guidelines that relate to the deficiencies we cited.

To Unity:

- 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

[Whispering Pines Preschool, Inc.: Compliance With the Reimbursable Cost Manual \(2013-S-48\)](#)
[Whitestone School for Child Development: Compliance With the Reimbursable Cost Manual \(2014-S-38\)](#)

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. Christopher Burke
Executive Director
Unity House of Troy
2431 Sixth Avenue
Troy, NY 12180

Dear Ms. Elia and Mr. Burke:

The Office of the State Comptroller is committed to providing accountability for tax dollars spent to support government-funded services and 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 expenses submitted by Unity House of Troy 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*. 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.

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

Unity House of Troy (Unity) is a not-for-profit organization located in Troy, New York that provides a range of community-based programs, including employment services, housing support services, and domestic violence services. Additionally, Unity offers special education services to preschool students and their families through its Unity Sunshine Program. During our audit period, Unity provided Preschool Special Class services, Preschool Integrated Special Class services, and Preschool Special Education Itinerant Teacher (SEIT) services (collectively referred to as the Programs) to about 240 students. Unity is managed by an Executive Director, who is overseen by a board of directors.

The counties that use Unity's special education services pay tuition using reimbursement rates set by the New York State Education Department (SED). The State, in turn, reimburses the 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 Unity on the annual Consolidated Fiscal Reports (CFRs) 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 meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). In general, costs claimed for reimbursement must be reasonable, necessary, program-related, and supported by documentation. For the calendar year ended December 31, 2012, Unity claimed approximately \$6.85 million in reimbursable costs for the Programs.

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 program, and adequately documented. Of the \$6.85 million Unity claimed on its CFR for the Programs, we identified \$404,952 in costs reported by Unity that were incorrectly calculated or otherwise did not comply with the RCM requirements for reimbursement, including \$322,258 in personal service costs and \$82,694 in other than personal service (OTPS) costs. In certain instances, some disallowed costs were previously identified by Unity and SED, and we noted such instances in the report.

Personal Service Costs

During the calendar year ended December 31, 2012, Unity reported \$5.8 million for personal service and fringe benefit costs for the Programs. Of this amount, we identified \$322,258 in costs that were ineligible for reimbursement because they were incorrectly calculated or were already reported on a previous CFR.

Allocation Calculation Errors

According to the RCM, personal service costs, which include all salaries and fringe benefits paid or accrued to employees on the agency's payroll, must be reported on the CFR as either direct care costs (e.g., teachers' salaries) or non-direct care costs (e.g., administrators' salaries). The RCM states that salaries for shared staff must be allocated among all of the programs for which they work. The RCM and CFR Manual recommend that providers use the actual hours of service that staff work in programs to allocate salaries and fringe benefits of staff who are shared among multiple programs or locations.

We identified \$312,543 in personal service and fringe benefit expenses that were overstated on the CFR and therefore ineligible for reimbursement. The overstatements occurred because Unity incorrectly calculated the amounts to be reported for each Program on the CFR. The following errors contributed to the incorrect calculations:

- Unity included too many hours per day for certain direct care positions. For example, Unity included costs for day care teachers at seven hours per day instead of five hours per day, resulting in an overstatement of \$187,472;
- Unity included two teacher aide positions totaling \$110,092 that were already included on the CFR in a different category; and
- Unity included the personal service costs for one of its classrooms for a full year even though the classroom operated for only part of the year, resulting in an overstatement of \$14,979.

After submitting their 2012 CFR to SED, Unity officials self-reported errors totaling \$148,035 and worked with SED to correct them. However, the remaining \$164,508 (\$312,543 - \$148,035) in overstated personal service and fringe benefit costs were not corrected.

Severance Pay

Severance pay is compensation paid to employees whose services are being terminated and, according to the RCM, is reimbursable provided the cost does not exceed two weeks' pay. We identified \$9,715 in severance pay reported by Unity on its 2012 CFR that was ineligible for reimbursement. We determined that Unity had already reported two weeks of allowable severance pay for the same employee on its 2011 CFR.

Other Than Personal Service Costs

For the calendar year ended December 31, 2012, Unity reported more than \$1 million in OTPS costs for the Programs. Of this amount, we identified \$82,694 in costs that were ineligible for reimbursement because they were incorrectly calculated, not related to the Programs, or otherwise not allowable under the RCM requirements.

Allocation Calculation Errors

According to the RCM, costs should be charged directly to specific programs whenever possible. For those circumstances when costs cannot be directly charged, the RCM and CFR Manual recommend methods to allocate costs across all programs that benefit from the expense. We identified OTPS costs totaling \$46,878 that were overstated on the CFR because Unity incorrectly calculated the allocation of the costs. We determined Unity allocated certain OTPS expenses, such as staff development and staff travel, using a ratio based on the percentage of personal service expenses charged to its programs. However, as noted in the Personal Service Costs section of this report, Unity's calculation to allocate personal service expenses to each Program contained errors resulting in the overstatement of personal service expenses on the CFR. Since Unity allocated certain OTPS expenses based on personal service expenses, OTPS expenses were also overstated on the CFR.

Other Ineligible Expenses

According to the RCM, costs are reimbursable provided such costs are reasonable, necessary, directly related to the special education program, and properly documented. In addition, expenses for food, entertainment, and gifts are not reimbursable. For the calendar year ended December 31, 2012, we identified \$35,816 in costs that were ineligible for reimbursement because they were not in compliance with RCM or CFR Manual requirements. The ineligible costs include the following:

- \$13,653 for costs that were not related to the Programs, including \$12,226 in costs related to the infant, toddler, or outreach programs operated by Unity and \$1,427 for bank fees related to accounts for other programs;
- \$11,143 in gift cards and other gifts, including flowers;
- \$5,132 in food at restaurants and meetings;
- \$3,698 in costs related to fundraising; and

- \$2,190 in other miscellaneous expenses, including \$940 in ineligible costs to attend events, \$400 for staff entertainment, \$348 in unnecessary costs (e.g., late fees), \$290 in costs that were unsupported, and \$212 for conference costs that were ineligible because Unity exceeded the RCM's allowable number of employees who could attend the conference.

Recommendations

To SED:

1. Review the disallowances identified by our audit and adjust Unity's CFRs and tuition reimbursement rates, as appropriate.
2. Remind Unity officials of the pertinent SED guidelines that relate to the deficiencies we cited.

To Unity:

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 and Methodology

We audited costs that Unity reported on its CFRs 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 reviewed the RCM that applied to the year we examined as well as the CFR Manual and its related appendices. We also became familiar with Unity's internal controls as they related to costs it reported on the CFR. We reviewed Unity's CFR for the calendar year ended December 31, 2012 as well as its audited financial statements for this period. We obtained accounting records and supporting information to assess whether certain costs claimed by Unity on the CFR that were considered high risk and reimbursable in limited circumstances (such as food and gifts) were properly calculated, adequately documented, and allowable. We also interviewed personnel to obtain an understanding of the practices for reporting costs on the CFR.

We conducted our performance 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 (some of whom have minority voting rights) to certain boards, commissions, and public authorities. 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

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.

Reporting Requirements

We provided a draft copy of this report to SED and Unity 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 our audit recommendations and indicated the actions they will take to address them. In their response, Unity officials raised issues pertaining to proposed disallowances for conference and staff development costs as well as the allocation of property costs. Also, our rejoinders to certain Unity 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

Unity House of Troy Schedule of Submitted and Disallowed Program Costs for the Calendar Year Ended December 31, 2012

Program Costs	Amounts Submitted Per CFR	Amounts Disallowed	Amounts Remaining	Notes to Exhibit
Personal Services	\$5,788,148	\$322,258	\$5,465,890	A,B
Other Than Personal Services	1,063,894	82,694	981,200	C-K
Total Program Costs	\$6,852,042	\$404,952	\$6,447,090	

Notes to Exhibit

The Notes shown below refer to specific sections of the Reimbursable Cost Manual upon which we have based our adjustment. We have summarized the applicable section to explain the basis for the disallowance. Details of the transactions in question were provided to SED and Unity House of Troy officials during the course of our audit.

- A. RCM, Section III.1.B (2011-12, 2012-13) - 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.
- B. Section II.47.B (2) (2011-12), Section II.46.B (2) (2012-13) - The cost of severance pay does not exceed two weeks' pay for a full-time employee.
- C. Section II (2011-12, 2012-13) - Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program and are sufficiently documented. Such reimbursable costs will be included in the calculation of tuition rates up to any limits or cost parameters approved annually in the rate-setting methodology.
- D. Section II.25 (2011-12), Section II.24 (2012-13) - Gifts of any kind are non-reimbursable.
- E. Section II.23.C (2011-12), Section II.22.C (2012-13) - Costs of food provided to any staff including lunchroom monitors are not reimbursable. Section II.31.C (2011-12), Section II.30.C (2012-13) - Costs for food, beverages, entertainment and other related costs for meetings, including Board meetings, are not reimbursable.
- F. Section II.24 (2011-12), Section II.23 (2012-13) - Costs of organized fund raising (i.e., financial campaigns, endowment drives or solicitation of gifts and bequests) to raise capital, or to obtain contributions are not reimbursable.
- G. Section II.17 (2011-12), Section II.16 (2012-13) - Political and charitable contributions and donations made by the program are not reimbursable.
- H. Section II.21.A (2011-12), Section II.20.A (2012-13) - Costs incurred for entertainment of officers or employees, or for activities not related to the program, or any related items such as meals, lodging rentals, transportation and gratuities, are not reimbursable.
- I. Section II.31.E (2011-12), Section II.30.E (2012-13) - Costs of conferences attended by administration staff are limited to two people per conference and are reimbursable provided that the purpose of the conference is to improve or demonstrate new administrative techniques or concepts.
- J. Section II.22 (2011-12), Section II.21 (2012-13) - Costs resulting from violations of or failure by, the entity to comply with Federal, State and/or local laws and regulations, are not reimbursable.
- K. 2012-2013 CFR Manual - Section 13 (CFR 1) - Line #66 Adjustments/Non-Allowable Costs - Report all program/site and/or program administration items included in the cost report that are considered non-allowable expenses.

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
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August 19, 2015

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, 2014-S-60, Compliance with the Reimbursable Cost Manual: Unity House of Troy.

Recommendation 1: Review the disallowances identified by our audit and adjust Unity's CFRs and tuition reimbursement rates, as appropriate.


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 Unity officials of the pertinent SED guidelines that relate to the deficiencies we cited.

We agree with this recommendation. The Department will continue to provide technical assistance whenever requested and will strongly recommend that Unity House of Troy 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 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,



Sharon Cates-Williams

c: James P. DeLorenzo
Suzanne Bolling

Agency Comments - Unity House of Troy

September 28, 2015



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

Re: Audit 2014-S-60

Dear Ms. Inman,

We, at Unity House, would first like to extend our thanks to the OSC audit team led by Brian Krawiecki. Brian and all his auditors treated the staff they dealt with at Unity House with the utmost courtesy and respect. We disagree with some of the findings, or the way that some of them are portrayed, as noted below, but not the manner in which we were treated.

In response to the draft Audit 2014-S-60 report concerning the expenses submitted by Unity House of Troy on its Consolidated Fiscal Reports (CFRs) for the calendar year December 31, 2012, we ask the following:

- 1) We would appreciate it if you include under "Key Findings" on page 1, the fact that Unity House had, previous to the OSC Audit, self reported \$148,035 of errors and worked with SED to correct those errors.
- 2) We ask that you reverse your decision on administrative costs that your draft audit claims should have been charged to specific programs. Unity House follows the ratio value method to allocate the Administrative costs of all employees who work on behalf of multiple programs. The ratio value method is prescribed by the State Education Department (SED) along with the NYS Office of Mental Health (OMH), the NYS Office for Persons with Developmental Disabilities (OPWDD) and the NYS Office of Alcoholism and Substance Abuse (OASAS). The method is prescribed because the cost of keeping track of time spent by administrative staff on one program vs another all day long every day is prohibitive. On page 6, under the category "Allocation Calculation Errors" you note that the SED Reimbursable Cost Manual (RCM) states that costs should be charged directly to specific programs **whenever possible**. It is certainly **possible** for me as the Executive Director at Unity House to keep track of how much time I spend with the Service Director of our SED Programs vs how much time I spend with the Service Director of our Mental Health

*
Comment
1

*
Comment
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*See State Comptroller's Comments on Page 16.

Programs. But you are not citing my failure to do so because you know that the ratio value method is prescribed by SED. The same logic should be applied to conferences attended by administrative staff. Conferences almost always have generic management subject matter that is pertinent to all program areas. It is not reasonable to expect staff to keep track of what is pertinent to one program area vs another when the ratio value method ensures a fair allocation. In this audit, only conferences that did not, on the surface, appear specifically related to SED subject matter were found ineligible for reimbursement. There was no citing of conferences that appeared to be SED specific and the resulting notation that 100% of those conference expenses should have been charged to SED instead of being charged in part to other State Agencies.

- 3) Lastly, we ask that you note in this Audit report the undercharging of property costs to SED that you discovered during the course of your on site audit work. You noted to us verbally that the SED RCM prefers that property costs be allocated based on square footage and that Unity House had used another methodology. You asked us to redo the property cost allocation based on square footage. When we did so it resulted in the discovery that Unity House had undercharged property costs to SED by \$33,909. We ask that you include that finding in your report.

*
Comment
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Once again, I want to thank the OSC Audit Team for their courtesy and professionalism. If you have further questions, please contact me at 274-2607.

Sincerely,



Christopher Burke
Chief Executive Officer

State Comptroller's Comments

1. Page five of our audit report disclosed that Unity officials self-reported errors totaling \$148,035 and worked with SED to correct those errors.
2. Based on the formal comments provided by Unity, we deleted the audit disallowance of \$3,867 in conference and staff development costs and amended our report to reflect this.
3. Unity's response is misleading. We tested Unity's method to allocate property costs for its CFR for 2012 and concluded that Unity's method was reasonable and allowed by the RCM. Consequently, we took no exception to it. Further, we did not ask Unity to redo its property cost allocation based on square footage. During our assessment of this issue, Unity officials told us they were exploring a property cost allocation using square footage, and auditors asked Unity to share the results if and when the re-allocation was completed. We reviewed the re-allocation and questioned some of its underlying assumptions. In particular, there was risk that Unity assigned excessive percentages of square footage to its SED programs. Consequently, it is unclear whether Unity could have claimed an additional \$33,909 in property costs for 2012. Under these circumstances, Unity officials should consider providing SED with sufficient documentation of its re-allocation of property costs for SED's assessment in addressing our report's recommendations.