

THOMAS P. DINAPOLI
COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 3, 2016

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

Ms. Christine Lewis
Executive Director
League for the Handicapped
393 North Street
Springville, NY 14141

Re: Compliance With the Reimbursable
Cost Manual
Report 2015-S-89

Dear Ms. Elia and Ms. Lewis:

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 the League for the Handicapped (LFH) 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

LFH, a not-for-profit organization located in Springville, New York, is an SED-approved provider of preschool special education services. LFH offers a range of services and programs to children with disabilities from birth through eight years of age that include Preschool Special Classes, Preschool Integrated Special Classes, Preschool Special Education Itinerant Teacher Services, Preschool Evaluations, Preschool Related Services, Special Education 1:1 Aides, and Early Intervention. LFH also operates an autism program for preschoolers and young school-age children.

For the fiscal year ended June 30, 2014, LFH offered four SED-funded rate-based programs:

Preschool Special Class over 2.5 hours/day, Preschool Special Class 2.5 hours/day, Preschool Integrated Special Class over 2.5 hours/day, and Preschool Special Education Itinerant Teacher Services (collectively referred to as the Programs). During the 2013-14 school year, LFH provided these special education services to 156 children with learning disabilities from approximately 35 school districts located in three counties in western New York.

The counties that use LFH's special education services pay tuition to LFH using reimbursement rates set by SED. The State reimburses the counties 59.5 percent of the special education tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by LFH 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 (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). For the fiscal year ended June 30, 2014, LFH reported about \$4 million in reimbursable costs on its CFR, of which \$2.9 million was for the Programs.

Results of Audit

For the fiscal year ended June 30, 2014, we identified \$4,354 in other than personal service costs charged to the Programs that did not comply with SED's requirements for reimbursement.

Other Than Personal Service Costs

According to the RCM, vehicle costs, such as fuel and repairs, are reimbursable if they are supported by vehicle logs that document the vehicle's use and the costs incurred. However, LFH did not maintain a vehicle log to support the costs for the vehicle it owned. As a result, we identified \$2,159 in non-reimbursable vehicle costs allocated to the Programs.

According to the RCM, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. We identified \$1,519 in costs that were not in compliance with these guidelines. Specifically, we found the following:

- \$1,080 for contracted services for children not enrolled in the Programs;
- \$180 for evaluation services incorrectly charged to the Programs – the services should have been charged to the Preschool Evaluation program;
- \$231 for insufficiently documented costs, including \$171 in credit card purchases and \$60 in vision services; and
- \$28 for credit card late fees.

According to the RCM, interest expense on working capital loans will not be reimbursed for entities that file cost reports more than 90 days after the respective due date. LFH failed to meet the 90-day deadline and, consequently, \$676 in working capital interest that was allocated to the Programs is not reimbursable. (Note: Prior to the audit, SED adjusted this \$676 in costs we also identified.)

Recommendations

To SED:

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

To LFH:

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

We audited the costs submitted by LFH on its CFR for the year ended June 30, 2014. The objective of our audit was to determine whether the costs submitted by LFH on its CFR were properly calculated, adequately documented, and allowable under SED's guidelines, including the RCM.

To accomplish our objective and assess internal controls related to our objective, we reviewed the RCM as well as the CFR Manual and related appendices. We interviewed SED officials to obtain an understanding of the CFR, as well as the policies and procedures contained in the RCM and CFR Manual. We became familiar with LFH's internal controls as they related to the costs LFH reported on the CFR. We also interviewed LFH personnel to obtain an understanding of their financial practices for reporting costs on the CFR. To complete our audit work, we reviewed LFH's CFR and relevant financial records for the audit period and obtained accounting records and supporting information to review a judgmental sample of personal service and other than personal service costs that were considered high risk and reimbursable in limited circumstances, such as food and vehicle expenses.

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.

Reporting Requirements

We provided a draft copy of this report to SED and LFH 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 and LFH officials agreed with the audit recommendations and indicated the actions they will take to address them. Also, based on comments made in LFH's response, we modified page 2 of the report to indicate LFH serves approximately 35 school districts.

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 where recommendations were not implemented, the reasons why.

Major contributors to this report were Ed Durocher, Dan Towle, Laurie Burns, Karen Ellis, and Dylan Spring.

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

Sincerely,

Andrea Inman
Audit Director

cc: Thomas Kelchlin, CFO, League for the Handicapped
Suzanne Bolling, Director of Special Education Fiscal Services, SED
Thalia Melendez, Director – Office of Audit Services, SED

Agency Comments - State Education Department



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

DEPUTY COMMISSIONER
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May 19, 2016

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, 2015-S-89, Compliance with the Reimbursable Cost Manual: League for the Handicapped (LFH).

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on LFH's, CFRs and to LFH's tuition 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 LFH 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 LFH 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,

Sharon Cates-Williams

c: Pat Geary
Suzanne Bolling

Agency Comments - League for the Handicapped



Pamela A. Madeiros
518-689-1412
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April 22, 2016

VIA ELECTRONIC MAIL

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

Re: League for the Handicapped // 2015-S-89
Compliance with the Reimbursable Cost Manual
Draft Audit Report

Dear Ms. Inman:

We have reviewed the above entitled Draft Audit Report relating to expenses submitted by the League for the Handicapped on its Consolidated Fiscal Report (CFR) for the school year ending June 30, 2014 and appreciate the opportunity to provide comment on certain costs and expenses identified in the findings.

We would also note that we appreciated the professionalism of the audit team and the courtesies extended throughout the audit review process. We have incorporated the rigors of the auditors' protocols into our own self-evaluation procedures to assure continued compliance on all matters, but more specifically, as related to the few instances of reporting errors identified in the findings. Our self-applied correction action plan has addressed each of the findings. We are particularly mindful that the proposed findings constitute .001% of our agency's operating budget.

We would offer, however, a modest correction to the narrative section of the report. League proudly serves approximately 35 school districts, not 14.

Other Than Personal Services (OTPS) Costs

Late Charge

We do not challenge that a clerical coding error was made which allowed a \$28.00 VISA card late fee to be mistakenly included within allowable cost categories. We had refined our internal fiscal controls in 2014-15 to assure that all such non-allowable late fees are separately recorded to prevent the reoccurrence of such an error.

Vehicle Expenses

We do not challenge the proposed disallowance of \$2,159 associated with vehicle expenses based upon a lack of vehicle logs. As shared with the auditors on site review, we had mistakenly understood the RCM log requirements to apply to situations with significant use of vehicles and not, as here, the intermittent and sporadic use of this agency owned vehicle in question. We appreciate the clarification of the requirement, should we again own an agency vehicle.

Insufficient Documentation

We do not challenge the finding that \$171 of reported expenses lacked sufficient supporting documentation (Specifically, 2 VISA charges to Lowes and Zulilly for the purchase of supplies). In July, 2015, we had further strengthened our purchase order protocols to prevent such lapses from re-occurring.

Working Capital Interest

We do not challenge the proposed disallowance of \$676 associated with working capital interest expenses as required upon the late submission of the CFR. As we shared with the auditors, the demands placed on our limited fiscal staff sometimes prevents the timely submission of the required reports – a challenge we continue to address.

Contracted Direct Care Providers

We do not challenge the proposed disallowance of \$1,320 associated with certain contracted direct care service costs. We acknowledge that \$60 of such costs resulted from an overbilling by our vendor. We intend to recover those overpayments from subsequent payments to the vendor. We also recognize that \$180 of such costs were the result of clerical coding errors which allowed an evaluation cost to be recorded as a program cost rather than reported under the evaluation cost center. We also recognize that \$1,080 of such costs were the result of a clerical reporting error which allowed certain clinical service costs to be reported as program costs rather than being reported under the related

Andrea Inman, Audit Director
April 22, 2016
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service only cost center. This finding renewed our commitment to more fully scrutinize the invoices of our vendors and to assure payment is properly supported. We intend to respond to these specific errors by seeking reimbursement for the evaluation and related services consistent with applicable guidelines.

We appreciate your consideration of these comments. We note the recommendation made to NYSED to “review the disallowances identified... and, *if warranted*, make the necessary adjustments to the costs reported on LFH’s CFR’s and to LFH’s tuition reimbursement rates,” (itals added) and look forward to working with NYSED in this regard.

Very truly yours,

GREENBERG TRAURIG, LLP



Pamela A. Madeiros

PAM/dff

Cc: Suzanne Bolling, State Education Department (via Electronic Mail)
Thomas Kelchin, League for the Handicapped (via Electronic Mail)
Thalia Melendez, State Education Department (via Electronic Mail)
Laurie Burns, Office of State Comptroller (via Electronic Mail)
Christine Lewis, The Children’s League (via Electronic Mail)
Daniel Towle, Office of the State Comptroller (via Electronic Mail)

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