

THOMAS P. DINAPOLI
COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 29, 2014

Dr. John B. King, Jr.
Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Ms. Marsha Williams
Executive Director
Early Childhood Education Center
230 Washington Extension
Albany, NY 12203

Re: Compliance With the Reimbursable
Cost Manual: Early Childhood Education
Center
Report 2014-S-35

Dear Dr. King and Ms. Williams:

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 Early Childhood Education Center to the State Education Department 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

Early Childhood Education Center (ECEC), a not-for-profit organization with locations in Albany, Guilderland, and Troy, 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 fiscal year ended June 30, 2012, ECEC operated Preschool Special Class, Preschool Integrated Special Class, and Preschool Special Education Itinerant Teacher programs for about 150 children from seven upstate counties.

The counties that use ECEC's special education services pay tuition to ECEC using reimbursement rates set by SED. The State, in turn, 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 ECEC 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. For the fiscal year ended June 30, 2012, ECEC reported approximately \$2.8 million in reimbursable costs for the rate-based preschool special education programs they operated.

Results of Audit

We identified \$3,501 in costs that did not comply with SED's requirements for reimbursement. According to the RCM, gifts, food for board meetings, travel expenses that lack a stated purpose, and costs that lack supporting documentation are not reimbursable. ECEC officials reported \$1,897 in miscellaneous items for gifts to its employees (such as iPads, a Kindle, and a photo printer) and food for a board meeting. They also reported \$1,537 in travel costs that lacked the required documentation of the program-related purpose of the travel. ECEC officials were also unable to provide supporting documentation for other transactions totaling \$67.

Recommendations

To SED:

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

To ECEC:

3. Ensure that costs reported on annual CFRs fully comply with SED's guidelines and requirements.

Audit Scope, Objective, and Methodology

We audited the expenses submitted by ECEC on its CFR for the fiscal year ended June 30, 2012. The objective of our audit was to determine whether the costs submitted by ECEC on its CFRs 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 ECEC's financial records and interviewed ECEC officials and staff to obtain an understanding of their financial practices relating to the expenses reported on ECEC's CFR.

We also interviewed SED officials to obtain an understanding of the CFR and the policies and procedures contained in the RCM and the Consolidated Fiscal Reporting and Claiming Manual. We selected a judgmental sample of costs reported on ECEC's CFR and reviewed supporting documentation. Our sample selection took into account the relative materiality of the costs and risk of improper reimbursement. Accordingly, we focused our audit efforts on selected categories of costs including, but not limited to, personal service, travel, and miscellaneous expenses.

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 objectives. 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 ECEC 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 responses, SED and ECEC officials concurred with our recommendations and indicated that certain actions will be taken to address them. Our rejoinder to certain ECEC comments is included in the report's State Comptroller's Comment.

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 Dave Fleming, Daniel Towle, Jessica Turner, Kate Merrill, and Dylan Spring.

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

Sincerely,

Andrea Inman
Audit Director

cc: Maria Guzman, Director – Office of Audit Services, SED
Suzanne Bolling, Director of Special Education Fiscal Services, SED

Agency Comments - State Education Department



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

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December 4, 2014

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-35), Compliance with the Reimbursable Cost Manual: Early Childhood Education Center (ECEC).

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

We agree with this recommendation.

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: Commissioner John B. King, Jr.
James P. DeLorenzo
Suzanne Bolling
Maria Guzman

Agency Comments - Early Childhood Education Center



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

RE: Audit 2014-S-35
Date: December 5, 2014

Dear Andrea Inman:

Early Childhood Education Center appreciates the opportunity to provide a formal written response to the findings of the audit.

As was stated in the previous response, ECEC understands that gifts are not an allowable expense on the RCM:

- In the future, only fundraising monies or donations will be used for staff recognition, even when gifts are used professionally with the students.
- Food for the lengthy Annual Board Meeting is disallowed.

The \$1537.00 in "travel costs that lacked documentation" were substantiated with proof of allowable expense for Special Education Itinerant Teacher and Teacher of the Visually Impaired services provided on those specific dates (signed signature pages, session notes, and staff schedules).

OSC has made these two points clear:

- "purpose must be stated upon original travel voucher before approval"
- further proof in the instance under scrutiny would be futile since ECEC had not met the initial standard, although the cost was an allowable expense honestly provided within the guidelines of the RCM, as in this instance: in depth documentation proves this travel was program related.

In the future, vouchers will only be approved when an appropriate purpose is clearly stated.

ECEC appreciates this opportunity to strengthen our fiscal documentation for the future.

Sincerely,

Marsha N. Williams, M.S., SAS
Executive Director

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Comment
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* See State Comptroller's Comment on Page 7.

State Comptroller's Comment

1. According to the RCM, travel logs must be kept by each employee indicating, among other information, the purpose of the travel. We reviewed the travel costs for ECEC's employees and identified travel vouchers that lacked documentation of the program-related purpose of the travel. In their response to our audit findings, ECEC subsequently modified the travel vouchers to include the purpose of the travel. The modifications, however, were made at the time of our audit fieldwork – up to three years after the travel occurred. Because ECEC's travel documentation did not meet the requirements of the RCM, the costs were non-reimbursable. In their response, ECEC officials stated that, going forward, travel vouchers will include the purpose of employee travel.