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OFFICE OF THE STATE COMPTROLLER

December 27, 2011

Mr. John B. Rhodes
Chairman of the Board of Trustees
New York Institute for Special Education
999 Pelham Parkway
Bronx, NY 10469

Re: Report 2011-F-7

Dear Mr. Rhodes:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the New York Institute for Special Education to implement the recommendations contained in our audit report, *Selected Financial and Management Practices* (Report 2008-S-157).

Background, Scope and Objective

The New York Institute for Special Education (Institute) is located in the Bronx, New York. The Institute is one of 11 private schools that receive operating aid directly from the State to provide educational services to disabled students pursuant to Section 4201 of the State Education Law.

The Institute is regulated by the State Education Department (SED) but is governed by a 12-member Board of Trustees which is responsible for the general management and control of the Institute's financial and educational affairs. The Executive Director and other administrative staff are responsible for the day-to-day management of the Institute under the direction of the Board. For the fiscal year ended June 30, 2011, the Institute had an enrollment of 284 students and received approximately \$18 million from the State.

Our initial audit report, which was issued on January 14, 2010, examined whether Institute officials had established and maintained an adequate system of internal control over the school's financial operations. We determined that Institute officials had not always performed certain criminal background checks on new employees and that some employees from a non-State program were enrolled in the New York State and Local Employees Retirement System (ERS). We also determined that the Institute earned at least \$88,867 in interest on State funds, but did not use this interest to offset the costs of its State-funded programs. The objective of our

follow-up was to assess the extent of implementation, as of August 26, 2011, of the 12 recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

Institute officials have made significant progress in correcting the problems we identified in the initial report. However, improvements are still needed. Of the 12 prior audit recommendations, nine recommendations have been implemented, two recommendations have been partially implemented, and one recommendation has not been implemented.

Follow-up Observations

Recommendation 1

Ensure the Cornerstone Program and other ineligible employees are not enrolled in ERS.

Status - Implemented

Agency Action - Institute officials worked with the New York State and Local Employees Retirement System (ERS) to ensure that ineligible employees were removed from membership in the ERS.

Recommendation 2

Prepare and maintain accounting records that clearly show how the interest earned on State funds is used.

Status - Implemented

Agency Action - We reviewed the Institute's accounting records and bank statements for the period July 1, 2009 through June 30, 2010 and found that interest earned from State funds was used to offset the cost of the Institute's State funded programs.

Recommendation 3

Use the interest income earned on State funds to offset the costs of State-funded programs.

Status - Implemented

Agency Action - Our review of the accounting records and bank statements for the period July 1, 2009 through June 30, 2010 showed that the interest earned on State funds was used to offset the costs of the Institute's State funded programs.

Recommendation 4

Ensure that funds from State sources are maintained and accounted for separately from non-State funds.

Status - Implemented

Agency Action - Our review of the Institute's accounting records and bank statements for the period July 1, 2009 through June 30, 2010 found that funds from State sources are maintained and accounted for separately from non-State funds.

Recommendation 5

Ensure that all interest income earned on State funds is clearly reported in the Consolidated Fiscal Report.

Status - Implemented

Agency Action - Our review of the Institute's bank statements and accounting records for the period July 1, 2009 through June 30, 2010 showed that the interest income earned on State funds was reported on the appropriate line of the Consolidated Fiscal Report for the same period.

Recommendation 6

Comply with the Reimbursable Cost Manual's requirements for depreciation and cost allocation.

Status - Implemented

Agency Action - Effective with the 2009-10 fiscal year, SED officials increased the depreciation threshold from \$1,000 to \$5,000. We reviewed the Institute's Equipment and Furniture Inventory Records and the CFR for the 12-month period of July 1, 2009 through June 30, 2010, and found that Institute officials had complied with the Reimbursable Cost Manual's requirements for depreciation and cost allocation.

Recommendation 7

Include all equipment items in the inventory records.

Status - Not Implemented

Agency Action - We reviewed the Institute's accounting records for the 12-month period of July 1, 2009 through June 30, 2010, and determined that Institute officials had not included all items in their inventory records. For example, a computer valued at \$1,004 was classified as supplies and not included on the inventory records. Institute officials informed us that they had misclassified this computer.

Recommendation 8

Maintain the documentation recommended by SED when reimbursement is claimed for professional or consultant services, and ensure that there is a formal contract for the services.

Status - Partially Implemented

Agency Action - We selected and reviewed documentation for a judgmental sample of 5 of the 61 professional services Institute officials procured during the 2009-10 fiscal year. We also selected and reviewed similar documentation for a professional service procured during the 2010-11 fiscal year. Each service was valued at more than \$10,000. Institute officials were able to provide formal contracts/agreements for the six vendors. However, no documentation was prepared or maintained to show how three of the six vendors were selected.

Recommendation 9

Disclose all related-party contractual relationships in the Institute's financial statements.

Status - Implemented

Agency Action - Our review did not uncover any related party relationships that the Institute should have disclosed in its 2009-10 financial statements.

Recommendation 10

Obtain criminal history clearances for the 13 sampled employees as expeditiously as possible.

Status - Implemented

Agency Action - Eleven of the 13 sampled employees in our initial audit worked for the Institute's Cornerstone Program. Institute officials stated that the Cornerstone program is no longer operated by the Institute. Therefore, criminal history clearances were not needed for these 11 individuals. Institute officials provided a copy of the criminal history clearance for one of the two remaining employees. They advised that a criminal history check was requested but never received for the remaining employee. They further advised that the employee was subsequently terminated.

Recommendation 11

Determine whether criminal history or Statewide Central Register clearance is needed for any of the employees not included in our sample, and if so, obtain clearances for those employees as expeditiously as possible.

Status - Partially Implemented

Agency Action - Criminal history and/or Statewide Central Register clearances were required for the 198 employees who were not included in the sample for our initial audit.

Subsequently, 195 of these employees received clearances and two others were terminated. The remaining employee, who was hired in January 2003, has not yet been cleared. Her fingerprints were submitted to the New York City Department of Education on November 22, 2011.

Recommendation 12

Review the Institute's hiring procedures, determine why the required Statewide Central Register screenings and criminal history checks are not being performed for some newly hired employees, and take steps to ensure that they are performed.

Status - Implemented

Agency Action - We reviewed the personnel files for the 47 employees who were hired between January 5, 2009 and May 16, 2011, and found that the Institute had obtained both SCR and criminal clearances for all of them.

Major contributors to this report were Sheila Jones, Jeremy Mack, Brenda Maynard, and Anthony Belgrave.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the New York Institute for Special Education for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Kenrick A. Sifontes
Audit Manager

cc. Mr. James Conway, State Education Department
Mr. Thomas Lukacs, Division of the Budget
Dr. Bernadette Kappen, Executive Director, NY Institute for Special Education