

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 29, 2015

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

Ms. Carol Altwerger
Executive Director
Story Place Preschool, Inc.
1477 South Schodack Road
Castleton, NY 12033

Re: Compliance With the Reimbursable
Cost Manual
Report 2015-S-69

Dear Ms. Elia and Ms. Altwerger:

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 Story Place Preschool, Inc. (Story Place) 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

Story Place, a for-profit organization located in Castleton, New York, is an SED-approved provider of preschool special education services. Story Place offers a range of services and programs to children with disabilities from birth to five years of age. For the fiscal year ended June 30, 2014, Story Place offered three SED-funded rate-based preschool special education programs: Preschool Special Class; Preschool Integrated Special Class; and Preschool Special Education Itinerant Teacher Services (collectively referred to as the Programs). During the 2013-14 school year, Story Place provided these special education services to about 50 children with learning disabilities from 11 school districts located in three counties in Upstate New York.

The counties that use Story Place's preschool special education services pay tuition to Story Place 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 Story Place 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, Story Place reported \$1.9 million in reimbursable costs on its CFR for the Programs.

Results of Audit

According to SED guidelines, costs reported on the CFR should be reasonable, necessary, directly related to the special education program, and properly documented. For the fiscal year ended June 30, 2014, we identified \$5,150 in personal service costs that were charged to the Programs that did not comply with SED's requirements for reimbursement.

According to the RCM, reimbursement for compensation costs must be based on approved, documented payrolls, which must be supported by employee time records. However, we found Story Place reported personal service costs for two employees on its CFR that were not sufficiently supported by time records. Story Place officials indicated they incorrectly reported the personal services costs for the two employees based on a 40-hour workweek, although the two employees worked less than 40 hours per week. As a result, Story Place reported non-reimbursable salary and fringe benefit costs totaling \$5,150 on its 2013-2014 CFR.

Recommendations

To SED:

1. Review the disallowances resulting from our audit and make appropriate adjustments to the costs reported on Story Place's CFRs and to Story Place's tuition reimbursement rates.
2. Remind Story Place officials of the pertinent SED guidelines that relate to the deficiencies we identified.

To Story Place:

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 Story Place on its CFR for the fiscal year ended June 30, 2014. The objective of our audit was to determine whether the costs submitted by Story Place 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 Story Place's 2013-14 CFR and financial statements. We interviewed Story Place officials and staff to obtain an understanding of their financial practices relating to the expenses reported on Story Place's CFR. We also obtained an understanding of the CFR as well as the policies and procedures contained in the RCM and CFR Manual. We reviewed a judgmental sample of Story Place's Program costs. The sample included selected items reimbursable under limited circumstances and salary costs for employees whose time allocations we questioned. To complete our audit work, we reviewed supporting documentation for costs submitted by Story Place on its CFR and made a determination of whether the costs complied with and were allowable by the RCM and CFR Manual.

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 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 Story Place 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, officials agreed with our audit recommendations and indicated the actions they will take to address them.

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 Warren Fitzgerald; Brian Krawiecki; Thomas Sunkel, CPA; Matthew Bullett; and Innocentia Freeman.

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

Sincerely,

Andrea Inman
Audit Director

cc: 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
Office of Performance Improvement and Management Services
O: 518.473-4706
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December 14, 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, 2015-S-69, Compliance with the Reimbursable Cost Manual: Story Place Preschool Inc.

Recommendation 1: Review the disallowances resulting from our audit and make appropriate adjustments to the costs reported on Story Place's CFRs and to Story Place's tuition reimbursement rates.

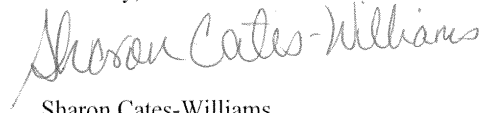
We agree with this recommendation. The Department will review the recommended disallowances as noted in the report and make adjustments to the reported costs to recover any overpayments, as appropriate, by recalculating tuition rates.

Recommendation 2: Remind Story Place 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 Story Place 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,

A handwritten signature in cursive script that reads "Sharon Cates-Williams". The signature is written in dark ink and is positioned above the printed name.

Sharon Cates-Williams

c: James P. DeLorenzo
Suzanne Bolling

Agency Comments - Story Place Preschool, Inc.

STORY PLACE PRESCHOOL
1477 South Schodack Road
Castleton, NY 12033

December 12, 2015

Andrea Inman, Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, New York 12236-0001

Re: State Education Department
Story Place Preschool, Inc. // Report 2015-S-69
Compliance With The Reimbursable Cost Manual

Dear Ms. Inman:

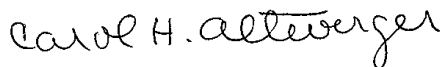
We have reviewed the Draft Audit Letter for Story Place Preschool, Inc. ("Story Place") for the audit year 2013-14 as referenced above and appreciate the opportunity to provide comment on the single audit finding.

We do not challenge the auditors' finding that Story Place had erred in calculating the total number of hours worked by 2 individual employees. We had already worked to strengthen our internal controls to assure that employee work weeks are accurately reported.

We are pleased that the auditors' review of our fiscal operations revealed strong, internal controls, but for the single exception noted above.

Story Place also appreciates the professionalism and reasonableness of the audit team during the entire audit process.

Sincerely,



Carol H. Altwerger
Executive Director

cc: Mary Ellen Elia, Commissioner, NYSED
Suzanne Bolling, NYSED
Thalia Melendez, NYSED
Brian Krawiecki, OSC
Pamela Madeiros, Esq.

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