

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 25, 2016

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

Ms. Jo Ann Frisina
Director
Early Education Center, Inc.
40 Park Lane
Highland, NY 12528

Re: Compliance With the Reimbursable
Cost Manual
Report 2015-S-96

Dear Ms. Elia and Ms. Frisina:

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 Early Education Center, Inc. (Center) 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

The Center, a for-profit organization located in Highland, New York, is an SED-approved provider of preschool special education services. The Center offers a range of services and programs to children with disabilities who are between the ages of three and five years. For the fiscal year ended June 30, 2014, the Center offered three SED-funded rate-based preschool special education programs: Preschool Special Class - over 2.5 hours per day; Preschool Integrated Special Class - 2.5 hours per day; and Preschool Integrated Special Class - over 2.5 hours per day (collectively referred to as the Programs). During the 2013-14 school year, the Center provided these special education services to 181 children with learning disabilities from 11 school districts located in three counties in the Hudson Valley Region of New York.

The counties that use the Center's preschool special education services pay tuition to the Center 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 the Center on its 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 by the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2014, the Center reported about \$2.4 million in reimbursable costs on its CFR for the Programs.

Results of Audit

According to SED's requirements, costs reported on the CFR are reimbursable provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. For the fiscal year ended June 30, 2014, we identified \$11,508 in other than personal service (OTPS) costs that were ineligible for reimbursement because they were not in compliance with the RCM or CFR Manual requirements.

Vehicle Expenses

According to the RCM, vehicle costs such as lease payments, fuel, tolls, and insurance are reimbursable if they are supported by vehicle logs that include the date, time of travel, destinations, mileage, and purpose of travel. We identified ineligible costs totaling \$9,937 for two vehicles that had missing or incomplete vehicle logs.

Other Non-Reimbursable Costs

According to the RCM, costs for food and certain kinds of advertising are not reimbursable. Also, costs are reimbursable provided they are sufficiently documented. We identified \$1,571 in costs reported by the Center that were ineligible for reimbursement because they were not in compliance with the RCM requirements. These costs include:

- \$1,243 for food for meetings;
- \$239 for the cost of an advertisement that did not indicate the Programs were for children with disabilities; and
- \$89 in costs that were unsupported.

Recommendations

To SED:

1. Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on the Center's CFR and to the Center's tuition reimbursement rates.

2. Remind Center officials of the pertinent SED guidelines that relate to the deficiencies we identified.

To the Center:

3. Ensure that all 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 the Center reported on its CFR for the fiscal year ended June 30, 2014. The objective of our audit was to determine whether the costs reported by the Center 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 Center's 2013-14 CFR and financial statements. We obtained an understanding of the CFR as well as the policies and procedures contained in the RCM and CFR Manual. We also interviewed Center officials to obtain an understanding of their financial practices relating to the expenses reported on the Center's CFR. We reviewed a judgmental sample of the Center's Program costs. Specifically, we reviewed costs that were considered high risk and reimbursable in limited circumstances, such as vehicle costs and costs associated with credit cards. To complete our audit work, we reviewed accounting records and supporting documentation for costs submitted by the Center 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 performance audit in accordance with generally accepted government auditing standards. Those 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 to certain boards, commissions, and public authorities, some of whom have minority voting rights. 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 Center 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 Center officials agreed with the 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 Dennis Buckley, Brian Krawiecki, Claudia Christodoulou, and Amy Tedesco.

We would like to thank the management and staff of SED and the Center 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
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June 30, 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-96, Compliance with the Reimbursable Cost Manual: Early Education Center, Inc. (Center).

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on the Center's CFR and to the Center'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 Center 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 Early Education Center, Inc. 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: Suzanne Bolling
Monica Short

Agency Comments - Early Education Center, Inc.



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July 13, 2016

VIA ELECTRONIC EMAIL

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

**RE: Early Education Center
Compliance with the Reimbursable Cost Manual
Audit #2015-S-96, revised June 30, 2016
DRAFT REPORT**

Dear Ms. Inman:

We have reviewed the above-referenced Draft report concerning the audit of NYSED entitled Compliance with the Reimbursable Cost Manual, specifically findings related to costs reported on Early Education Center's Consolidated Fiscal Report for the fiscal year ending June 30, 2014. We appreciate the opportunity to respond to the report and to offer context to some of the findings.

Other Than Personal Services (OTPS)

Non-Reimbursable Costs:

We do not challenge the auditors' findings around certain non-reimbursable costs, including expenses which were not sufficiently documented. More specifically:

- We acknowledge that certain vehicle related expenses lacked supporting documentation in some instances in the amount of \$9,937. In 2015, EEC had strengthened its internal controls around proper documentation including vehicle logs.
- We acknowledge that certain food expenses were inadvertently reported on the CFR. Strengthened fiscal procedures will prevent such errors from reoccurring.
- We acknowledge that while all other advertisements complied fully with the applicable requirements to assure reimbursement, a single advertisement (\$239)

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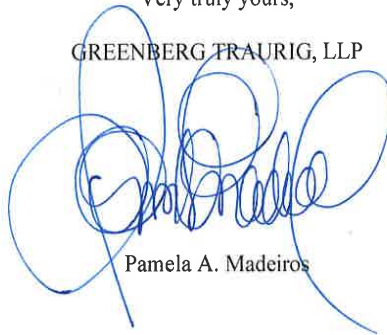
failed to include requisite descriptive language that EEC served special needs children.

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We appreciate this opportunity to provide context to the auditors' findings, and we take special note of the professionalism and courtesies extended by the audit team during the audit process.

Very truly yours,

GREENBERG TRAURIG, LLP



Pamela A. Madeiros

PAM/dff

CC: Thomas Sunkel, Examiner in Charge, OSC
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