

New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Compliance With the Reimbursable Cost Manual

State Education Department Adirondack Helping Hands, Inc.



Report 2016-S-88

August 2017

Executive Summary

Purpose

To determine whether the costs reported by Adirondack Helping Hands, Inc. (Adirondack) on its Consolidated Fiscal Report (CFR) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (RCM). The audit covered expenses reported on Adirondack's CFR for the fiscal year ended June 30, 2014.

Background

Adirondack is an SED-approved, for-profit special education provider located in Clinton County, New York. Adirondack provides preschool special education services to children with disabilities who are between three and five years of age. Adirondack is reimbursed for preschool special education services through rates set by SED. The reimbursement rates are based on financial information, including costs, that Adirondack reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with the RCM requirements. For the fiscal year ended June 30, 2014, Adirondack reported \$1.1 million in reimbursable costs on its CFR for the rate-based preschool special education programs (Programs) it operated.

Key Findings

For the fiscal year ended June 30, 2014, we identified \$37,643 in ineligible costs that Adirondack reported on its CFR for the Programs. The ineligible costs included:

- \$22,215 in other than personal service costs that consisted of \$9,453 in ineligible rent, \$5,939 in non-reimbursable working capital interest, \$3,756 in non-Program-related costs, and \$3,067 in non-reimbursable expenses such as food, gifts, charitable donations, fundraising, insufficiently documented expenses, and life insurance costs; and
- \$15,428 in excess personal service costs for two Adirondack owners who also worked for a related entity.

Key Recommendations

To SED:

- Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on Adirondack's CFR and to Adirondack's tuition reimbursement rates.
- Remind Adirondack officials of the pertinent SED requirements that relate to the deficiencies we identified.

To Adirondack:

- Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.
- Ensure that less-than-arm's-length transactions are disclosed on the CFR in accordance with SED's requirements.

Other Related Audits/Reports of Interest

[Jowonio School: Compliance With the Reimbursable Cost Manual \(2016-S-48\)](#)

[North Country Kids, Inc.: Compliance With the Reimbursable Cost Manual \(2016-S-53\)](#)

**State of New York
Office of the State Comptroller**

Division of State Government Accountability

August 2, 2017

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

Ms. Katie Calkins
Executive Director
Adirondack Helping Hands, Inc.
128 Park Row
Plattsburgh, NY 12918

Dear Ms. Elia and Ms. Calkins:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the costs submitted by Adirondack Helping Hands, Inc. to the State Education Department for the purpose of establishing the preschool special education tuition reimbursement rates used to bill public funding sources that are supported by State aid payments, entitled *Compliance With the Reimbursable Cost Manual*. The audit was performed 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.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*

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This report is also available on our website at: www.osc.state.ny.us

Background

Adirondack Helping Hands, Inc. (Adirondack) is a for-profit organization that provides various educational services in Clinton and Essex counties in northern New York. Adirondack is authorized by the State Education Department (SED) to provide, among other programs, preschool special education services to children with disabilities who are between three and five years of age. During the audit period, Adirondack provided three (rate-based) preschool special education programs to 76 students: Preschool Special Class – over 2.5 hours per day; Preschool Integrated Special Class – over 2.5 hours per day; and Preschool Special Education Itinerant Teacher services (collectively referred to as the Programs).

The counties that use Adirondack's preschool special education services pay tuition to Adirondack using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition that the counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by Adirondack on the annual Consolidated Fiscal Report (CFR) 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 must meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2014, Adirondack reported about \$1.1 million in reimbursable costs for the Programs on its CFR.

Audit Findings and Recommendations

According to the RCM, costs reported on the CFR are reimbursable if they are reasonable, necessary, directly related to the special education program, and adequately documented. For the fiscal year ended June 30, 2014 we identified \$37,643 in costs that Adirondack reported on its CFRs that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$22,215 in other than personal service (OTPS) costs and \$15,428 in personal service costs. In certain instances, some of the ineligible costs were previously identified by SED, which we noted in the report.

Other Than Personal Service Costs

For the fiscal year ended June 30, 2014, we identified \$22,215 in OTPS costs that were not eligible for reimbursement. The ineligible costs included \$9,453 in ineligible rent; \$5,939 in non-reimbursable working capital interest; \$3,756 in costs that were not related to the Programs; \$2,013 in various non-reimbursable expenses such as gifts, parties, clothing, and fundraising costs; and \$1,054 in life insurance costs.

Ineligible Rent Costs

According to the RCM, costs are reimbursable if they are reasonable, necessary, and directly related to the Program. Also, costs related to security deposits are not reimbursable.

During our audit period, Adirondack shared a portion of leased space with Kaleidoscope Children's Center (Kaleidoscope), a less-than-arm's-length (LTAL) party. Under an agreement with Kaleidoscope, Adirondack was allocated a portion of the rental costs for classroom space. Total rent costs to be allocated were \$132,048, which we determined were based on Kaleidoscope's actual costs, as required by the RCM. However, we found that \$9,453 was incorrectly included in the total rent costs allocated to Adirondack and reported on the CFR. The ineligible costs included:

- \$5,978 in duplicate rent expenses;
- \$2,697 in non-allowable costs for security deposits; and
- \$778 in rent costs for unrelated programs.

Working Capital Interest

The RCM states that interest expense on working capital loans is not reimbursable if there are outstanding loans or notes receivable from related parties during the loan repayment period. During the period in which Adirondack had working capital loans outstanding, the owners also had loans outstanding to Adirondack. Therefore, \$5,939 in interest on the working capital loans reported by Adirondack on its CFR was ineligible for reimbursement. SED previously identified these costs as ineligible for reimbursement.

Non-Program-Related Costs

According to the RCM, costs are reimbursable if they are directly related to the special education programs. Adirondack reported \$3,756 in costs on its CFR that were ineligible for reimbursement because they were not directly related to the Programs. The ineligible costs included cribs for an infant program and advertisements for teaching positions at Kaleidoscope. The costs for these items were incorrectly included in the amounts allocated to Adirondack as part of an agreement between Adirondack and Kaleidoscope to share certain general costs.

Other Non-Reimbursable Costs

According to the RCM, costs are considered for reimbursement if they are sufficiently documented. Also, gifts, food for staff, holiday parties, fundraising, charitable contributions, loan origination fees, and clothing for staff are not reimbursable. Adirondack reported ineligible costs totaling \$2,013 that included:

- \$667 in costs that did not have supporting documentation;
- \$283 for gifts;
- \$261 for staff food;
- \$211 for holiday parties;
- \$207 for fundraising;
- \$141 for purchases that were returned but the cost was still included on the CFR;
- \$122 for staff clothing;
- \$77 for loan origination fees; and
- \$44 for donations.

Life Insurance Policy

According to the RCM, the cost of insurance on the lives of owners, officers, or employees is not reimbursable if the school is identified as the beneficiary on the policy. Adirondack reported \$1,054 in life insurance on its 2013-14 CFR that was ineligible for reimbursement because Adirondack was listed as the beneficiary.

Personal Service Costs

Excess Compensation for Owners

According to the RCM, reimbursement for compensation to owners of a school who work in more than one entity (including LTAL organizations) is limited to 1.0 full-time equivalent (FTE) position in total, across all of the entities. Two of Adirondack's owners also worked for a related entity, Kaleidoscope. Adirondack reported compensation for the two owners at 1.0 FTE for each on its 2013-14 CFR, even though they actually devoted 10 percent of their time to Kaleidoscope. Therefore, the total time for these individuals, between the two entities, exceeded 1.0 FTE allowed by the RCM. As a result, we determined \$15,428 in excess personal service costs (\$13,930 salary

and \$1,498 fringe benefits) were ineligible for reimbursement. SED previously identified these costs as ineligible for reimbursement.

Other Matters

Undisclosed Less-Than-Arm's-Length Transactions

According to the CFR Manual, all related-party transactions must be reported on the CFR-5 schedule. Additionally, the RCM states that providers must have a conflict of interest policy that includes a requirement and process for fully disclosing all LTAL transactions. We found Adirondack did not have a conflict of interest policy that required disclosure of LTAL transactions. Consequently, Adirondack did not disclose payments on its CFR that were made to two family members of the owners who were hired as employees.

Recommendations

To SED:

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

To Adirondack:

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.
4. Ensure that LTAL transactions are disclosed on the CFR in accordance with SED's requirements.

Audit Scope, Objective, and Methodology

We audited the costs that Adirondack reported on its CFR for the fiscal year ended June 30, 2014. The objective of our audit was to determine whether the reported costs were allowable, properly calculated, and adequately documented in accordance with applicable SED requirements.

To accomplish our objective and assess internal controls related to our objective, we reviewed the RCM that applied to the year we examined, as well as the CFR Manual and its related appendices. We became familiar with Adirondack's internal controls as they related to costs that Adirondack reported on the CFR. We also interviewed Adirondack personnel to obtain an understanding of the practices for reporting costs on the CFR. We reviewed Adirondack's CFR for the fiscal year ended

June 30, 2014 and relevant financial records for this period. We obtained accounting records and supporting information to assess whether certain costs claimed by Adirondack on the CFR that we considered high risk and reimbursable in limited circumstances, such as LTAL transactions and owner FTE allocations, were allowable, properly calculated, and adequately documented.

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.

Authority

The audit was performed 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.

Reporting Requirements

We provided a draft copy of this report to SED and Adirondack 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 the report. In their responses, SED and Adirondack officials agreed with the audit recommendations and indicated the actions they will take to address them. Our rejoinder to certain Adirondack comments pertaining to excess compensation for owners 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 if the recommendations were not implemented, the reasons why.

Contributors to This Report

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Ed Durocher, CIA, Audit Manager
Brian Krawiecki, Audit Supervisor
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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Exhibit

**Adirondack Helping Hands, Inc.
Schedule of Submitted and Disallowed Program Costs
for the Fiscal Year Ended June 30, 2014**

Program Costs	Amount Per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Service Costs	\$897,833	\$15,428	\$882,405	A
Other Than Personal Service	\$205,702	\$22,215	\$183,487	B-L
Total Program Costs	\$1,103,535	\$37,643	\$1,065,892	

Notes to Exhibit

The following Notes refer to specific sections of the RCM that we used as a basis for our findings and recommended disallowances. We summarized the applicable sections to explain the basis for the findings and each disallowance. We provided the details supporting our recommended disallowances to SED and Adirondack officials during the course of the audit.

- A. RCM Section II.13.A.4.d: For non-direct care staff under the 500 and 600 position title code series per Appendix R of the CFR Manual, owners or related parties who work in more than one entity (including organizations that have a less-than-arm's-length relationship with the approved program), the FTE in total across entities cannot exceed 1.0.
- B. RCM Section I.4.F.7: All LTAL transactions will be reimbursed using actual documented costs of the owner or vendor. Invoices presented to the approved special education provider by the LTAL party do not constitute "actual costs." Actual costs are those the LTAL party incurs and it is expected upon audit or review that the LTAL party will produce evidence of its costs. The Commissioner's designee's written approval is required to reimburse at a level other than actual costs of the owner or vendor.
- C. RCM Section II.22.C: Costs of food provided to any staff, including lunchroom monitors, are not reimbursable.
- D. RCM Section II.20.B: All personal expenses, such as personal travel expenses, laundry charges, beverage charges, gift certificates to staff and vendors, flowers or parties for staff, holiday parties, repairs on a personal vehicle, rental expenses for personal apartments, etc., are not reimbursable unless specified otherwise in the RCM.
- E. RCM Section II.23: Costs of organized fundraising (i.e., financial campaigns, endowment drives, or solicitation of gifts and bequests) to raise capital, or to obtain contributions are not reimbursable.
- F. RCM Section II.16: Political and charitable contributions and donations made by the program are not reimbursable.
- G. RCM Section II.24: Gifts of any kind are non-reimbursable.
- H. RCM Section II.11: Ordinary living expenses, such as the cost of clothing and uniforms that are normally assumed by parents or legal guardians of students attending day care centers or public day schools, are not reimbursable. Clothing expenses for staff such as uniforms for custodians or bus drivers, even if required by school policy, are not reimbursable. Such costs are considered to be personal expenses.
- I. RCM Section II.28.A: Loan procurement fees are not reimbursable.
- J. RCM Section II.28.C.5: Reimbursement of interest expense on capital indebtedness shall be subject to the following conditions: Generally, interest expense on the above is reimbursable only when there is a corresponding amortization of principal on the capital indebtedness and there are no loans/notes receivable from related parties at any time during the entity's loan repayment period. Payments which represent "interest only" are not reimbursable unless otherwise approved by the Commissioner's designated representative.
- K. RCM Section II.27.C: Costs of insurance on the lives of owners/officers or employees when the entity is identified as the beneficiary are not reimbursable.
- L. RCM Section II.41.B.2: Rent security deposits are not reimbursable.

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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July 27, 2017

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, 2016-S-88, Compliance with the Reimbursable Cost Manual: Adirondack Helping Hands, Inc. (Adirondack).

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

We agree with this recommendation. SED 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 Adirondack officials of the pertinent SED requirements that relate to the deficiencies we identified.

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the Adirondack officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual (RCM). Furthermore, Consolidated Fiscal Report (CFR) training is available online on SED's webpage. SED recommends that all individuals signing the CFR certification statements, namely Executive Directors and Certified Public Accountants, complete this training. At the direction of the Board of Regents, the Department intends to require that this training be mandatory and will require individuals to verify that they have completed the training.

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: Christopher Suriano
Suzanne Bolling

Agency Comments - Adirondack Helping Hands, Inc.

Adirondack Helping Hands, Inc.

128 Park Row, Suite 101 • Catsville, NY 12918
Phone: 518-561-6361 • Fax: 518-293-5226

July 20, 2017

Dear Mr. Cosgrove,

Adirondack Helping Hands' (AHH) co-owners have received and reviewed the Draft Audit Report.

The audit identified \$37, 643 in reported costs that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$22,215 in other than personal costs (OTPS), and \$15,128 in personal service costs.

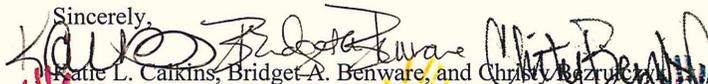
In response to \$22,216 in other-than-personal-service costs reported by Adirondack Helping Hands, we understand the findings. Incorrectly calculated rent (\$9453), and non-program Related Costs (\$3756) will no longer be an issue as, effective September, 2016, AHH is separated from KCC. Additionally, Non-Reimbursable Expenses (\$2013), Working Capital Interest (\$5939), and Life Insurance Costs (\$1054) were reported incorrectly on the CFR and are rectified moving forward.

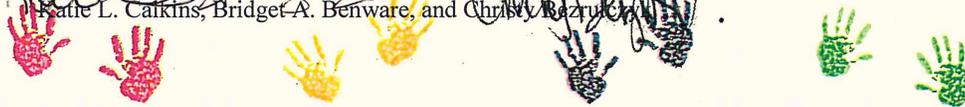
In response to Excess Compensation for Owners of a school who work in more than one entity (including LTAL organizations) identifying \$15,428 in ineligible reimbursement. While ten percent of owners' time is reflected on KCC documents, the two co-owners were present at Adirondack Helping Hands in a full-time capacity during the audit period. Kaleidoscope employed one full-time director, as well as one full-time assistant director to handle the operations of that agency. However, AHH understands this reflection of time on KCC documents results in the appearance of an FTE in excess of 1.0, which is disallowed per the RCM.

In response to Undisclosed Less-than-Arms-Length Employees, Rate Setting representatives were aware of the Related Individuals, Mark Bezrutczyk as a one-on-one aide, and Mary Ellen Navin, as the office manager. While the individuals and their dollars paid were not reflected on CFR-5, their dollars paid were included on the CFR-4. AHH confirms lack of a conflict of interest policy. Both errors will be rectified for future submissions.

Should you have any questions regarding AHH's responses to the draft report, please do not hesitate to contact us at 518-561-6361.

Sincerely,


Katie L. Calkins, Bridget A. Benware, and Christy Bezrutczyk



Put Your Child's Needs In Our Hands

*See State Comptroller's Comment, Page 15.

* Comment 1

State Comptroller's Comment

1. According to the RCM, reimbursement for compensation to owners of a school who work in more than one entity is limited to 1.0 full-time equivalent (FTE) position in total, across all of the entities. While Adirondack's response states the owners were present at Adirondack in a full-time capacity during the audit period, tax documentation for Kaleidoscope provided to our auditors indicated otherwise. These documents showed 10 percent of the owners' time was directed to Kaleidoscope, as acknowledged by Adirondack in its response. Additionally, as noted in the report, SED agreed the costs in question were ineligible for reimbursement. Therefore, we maintain that the \$15,428 in personal service costs that were beyond the allowed 1.0 FTE were ineligible for reimbursement.