



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
Jawonio, Inc.**



Report 2015-S-49

October 2016

Executive Summary

Purpose

To determine whether the costs reported by Jawonio, Inc. (Jawonio) 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). Our audit covered the calendar year ended December 31, 2014.

Background

Jawonio is a not-for-profit organization located in Rockland County, New York that offers services to individuals of all ages who have developmental disabilities, behavioral health challenges, and chronic medical conditions. Jawonio is approved by SED to provide preschool special education services to children with disabilities who are between the ages of three and five years. Jawonio is reimbursed for these services through rates set by SED. The reimbursement rates are based on financial information, including costs, that Jawonio reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with the RCM requirements. For the calendar year ended December 31, 2014, Jawonio reported over \$3.5 million in reimbursable costs on its CFR for four rate-based preschool special education programs that served approximately 150 students.

Key Findings

For the calendar year ended December 31, 2014, Jawonio claimed \$26,975 in ineligible costs for its four rate-based preschool special education programs. The ineligible costs included:

- \$24,611 in personal service costs that consisted of excess severance pay, compensation for work that was not related to the special education programs, excess compensation and fringe benefits, and a non-reimbursable bonus; and
- \$2,364 in other than personal service costs that consisted of ineligible depreciation and undocumented vehicle expenses.

Key Recommendations

To SED:

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

To Jawonio:

- Ensure that all costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.

Other Related Audits/Reports of Interest

[Summit Educational Resources: Compliance With the Reimbursable Cost Manual \(2014-S-49\)](#)

[Hear 2 Learn PLLC: Compliance With the Reimbursable Cost Manual \(2014-S-74\)](#)

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

Division of State Government Accountability

October 7, 2016

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

Ms. Jill A. Warner
Executive Director
Jawonio, Inc.
260 North Little Tor Road
New City, NY 10956

Dear Ms. Elia and Ms. Warner:

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 expenses submitted by Jawonio, 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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 Division of State Government Accountability
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This report is also available on our website at: www.osc.state.ny.us

Background

Jawonio was founded in 1947 as the Cerebral Palsy Society of Rockland County, providing outpatient treatment for children with neuromuscular and other similar disabilities. Jawonio is a registered non-profit organization that currently offers services for individuals of all ages with developmental disabilities, behavioral health challenges, and chronic medical conditions.

Jawonio operates preschool special education programs at a single site in New City, New York. For the calendar year ended December 31, 2014, Jawonio offered four SED-funded rate-based preschool special education programs: Preschool Special Class – over 2.5 hours per day; Preschool Integrated Special Class – over 2.5 hours per day; Preschool Integrated Special Class – 2.5 hours per day; and Preschool Special Education Itinerant Teacher services. These programs served about 150 students in Rockland County.

The counties that use Jawonio’s preschool special education services pay tuition using reimbursement rates set by the State Education Department (SED). The State, in turn, reimburses the counties 59.5 percent of the tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by Jawonio on the 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 must meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the calendar year ended December 31, 2014, Jawonio reported approximately \$3.5 million in reimbursable costs for the four rate-based preschool special education programs they operated.

Audit Findings and Recommendations

According to the RCM, costs reported on the CFR are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and adequately documented. Of the \$3.5 million Jawonio claimed on its CFR for the programs we audited, we identified \$26,975 in costs that did not comply with the RCM requirements for reimbursement, including \$24,611 in personal service costs and \$2,364 in other than personal service (OTPS) costs. Also, prior to our audit, SED identified certain costs reported by Jawonio as ineligible for reimbursement and adjusted Jawonio's CFR accordingly.

Personal Service Costs

For the calendar year ended December 31, 2014, Jawonio reported approximately \$2.8 million in personal service costs. Of this amount, we identified \$24,611 in ineligible costs that included: excess severance pay and associated benefits; compensation for work that was not related to the special education programs; excess compensation and fringe benefits; and a non-reimbursable bonus.

Ineligible Severance Pay

Severance pay is compensation paid to employees whose services are terminated and, according to the RCM, severance pay is reimbursable provided the costs do not exceed two weeks' pay. We identified \$7,614 in severance pay and associated benefits reported by Jawonio on its CFR for two employees that was ineligible for reimbursement because the costs exceeded the two-week limit.

Non-Program-Related Compensation

According to the RCM, costs will be considered for reimbursement provided such costs are directly related to the special education program. We identified \$7,014 in salary and fringe benefits provided to the Chief Communications and Development Officer and reported by Jawonio on its CFR that was ineligible for reimbursement because it was not related to the special education program.

Excessive Compensation of Senior Executives

The RCM states that reimbursement for compensation (including salaries and fringe benefits) paid to a provider's Executive Director (ED) and its Chief Financial Officer (CFO) should not exceed the regional median compensation paid to comparable personnel in public schools for similar work and hours of employment. We identified \$6,293 in salary and fringe benefits provided to the ED and CFO and reported by Jawonio on its 2014 CFR that was ineligible for reimbursement because it exceeded these limits. (Note: Prior to the audit, SED made certain adjustments to Jawonio's CFR for the reported compensation of the ED and CFO.)

Excessive Fringe Benefits for a Director

According to the RCM, fringe benefits for officers and directors must be proportionately similar to those received by other classes or groups of employees. We identified \$3,546 in fringe benefits for a director (not the ED or CFO) that Jawonio reported which were ineligible for reimbursement because the benefits were not offered to other Jawonio staff.

Ineligible Bonus Pay

According to the RCM, bonus compensation is restricted to direct care employees or certain specialized non-direct care employees. We identified \$144 in bonus pay and associated benefits reported by Jawonio that was ineligible for reimbursement because it was provided to an employee who was in a title that did not correspond with the applicable RCM requirement.

Other Than Personal Service Costs

For the calendar year ended December 31, 2014, Jawonio reported approximately \$725,000 in OTPS costs. Of this amount, we identified \$2,364 in ineligible costs that included non-allowable depreciation and undocumented vehicle expenses.

Ineligible Depreciation Costs

According to the RCM, any cash receipts that reduce the cost of an item will be applied against the item, except for gifts, donations, and interest earned from balances of other than public funds. We identified \$1,635 in building depreciation costs reported by Jawonio that were ineligible for reimbursement because the capitalized assets in question were acquired with insurance proceeds.

Ineligible Vehicle Expenses

Jawonio reported \$729 in vehicle and travel costs (including gas, repairs and maintenance, insurance, and depreciation) that were ineligible for reimbursement because these costs were not in compliance with the RCM. According to the RCM, for vehicle costs to be reimbursable, vehicle logs must be maintained by each employee that include, at a minimum: the date and time of travel; the destinations to and from, along with the mileage between each point; the purpose of the travel; and the name of the traveler. However, Jawonio did not maintain a log for a vehicle it owned and made available for use by its ED. Therefore, the reported vehicle costs were not reimbursable.

Recommendations

To SED:

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

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

To Jawonio:

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 and Methodology

We audited the costs Jawonio reported on its CFR for the calendar year ended December 31, 2014. The objective of our audit was to determine whether the costs reported by Jawonio on its CFR were properly calculated, adequately documented, and allowable under SED guidelines, including the RCM.

To accomplish our objective, we reviewed the RCM that applied to the year we examined, as well as the CFR Manual and its related appendices. We also became familiar with Jawonio's internal controls as they related to costs it reported on the CFR. We reviewed Jawonio's CFR for the calendar year ended December 31, 2014 as well as its audited financial statements for this period. We obtained accounting records and supporting information to assess whether costs claimed by Jawonio on the CFR were properly calculated, adequately documented, and allowable. Specifically, we reviewed costs that were of comparatively higher risk and reimbursable in limited circumstances, such as executive salaries and benefits, severance pay, employee bonuses, depreciation expenses, and vehicle expenses. We also interviewed personnel to obtain an understanding of the practices for reporting costs on the CFR.

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 Jawonio 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 Jawonio 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 if the recommendations were not implemented, the reasons why.

Contributors to This Report

Andrea Inman, Audit Director
Dennis Buckley, Audit Manager
Karen Bogucki, Audit Supervisor
Judy Grehl, Examiner-in-Charge
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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

Jawonio, Inc.
Schedule of Submitted and Disallowed Program Costs
for the Calendar Year Ended December 31, 2014

| Program Costs | Amount Per CFR | Amount Disallowed | Amount Remaining | Notes to Exhibit |
|--|-----------------------|--------------------------|-------------------------|-------------------------|
| Personal Service | | | | |
| Direct Care | \$2,523,904 | \$1,030 | \$2,522,874 | |
| Administration | 270,160 | 23,581 | 246,579 | |
| Total Personal Service | \$2,794,064 | \$24,611 | \$2,769,453 | A–E |
| Other Than Personal Service | | | | |
| Direct Care | 568,434 | 1,635 | 566,799 | |
| Administration | 156,494 | 729 | 155,765 | |
| Total Other Than Personal Service | \$724,928 | \$2,364 | \$722,564 | F,G |
| Total Program Costs | \$3,518,992 | \$26,975 | \$3,492,017 | |

Notes to Exhibit

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

- A. RCM Section II.13.A(4)a – Reimbursement for compensation (salaries and fringe benefits) paid to a provider’s Executive Director or Chief Financial Officer should not exceed the median compensation paid to comparable personnel in public schools for similar work and hours of employment.
- B. RCM Section II.13.B(2)c – Fringe benefits for officers/directors must be proportionately similar to those received by other classes or groups of employees.
- C. RCM Section II.46.B(2) – Severance pay that exceeds two weeks’ salary is not reimbursable.
- D. RCM Section II – Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program and are sufficiently documented.
- E. RCM Section II.13.A(10) – Merit awards (or bonus compensation) cannot be directly related to hours worked and need to be supported by performance evaluations. In addition, merit awards are restricted to direct care employees.
- F. RCM Section II.44.A(1) – Any cash receipts that reduce the cost of an item will be applied against the item, except gifts, donations and earned interest from other than public funds.
- G. RCM Section III.1.J(2) – Vehicle use must be documented with individual vehicle logs that include at a minimum: the date, time of travel, to and from destinations, mileage between each, purpose of the travel, and name of the traveler.

Agency Comments - State Education Department



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

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September 19, 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 (SED) response to the draft audit report, 2015-S-49, Compliance with the Reimbursable Cost Manual: Easter Jawonio, Inc. (Jawonio).

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

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 Jawonio officials of the pertinent SED guidelines 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 Jawonio 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 both in person, at one of the six locations it is offered across the State, and 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
Monica Short

Agency Comments - Jawonio, Inc.



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August 9, 2016

Office of the State Comptroller
Attn: Andrea Inman, Audit Director
Division of State Government Accountability
110 State Street – 11th Floor
Albany, NY 12236-0001

Re: Draft Audit Report 2015-S-49 – Jawonio Response

Dear Ms. Inman,

We are in receipt of the above referenced report. We agree with the findings and will follow the recommendations made by the Office of the State Comptroller.

I would like to compliment your auditors at this time. They were courteous, patient and professional during their time with us. A special mention of Karen Bogucki, who was particularly helpful.

Please call me at 845.639.3605 or email me at jill.warner@jawonio.org if you require any additional information or action from me.

Sincerely,

Jill A. Warner, LCSW
Executive Director/CEO

JAW:nsh

Cc: Karen Bogucki
Joseph Bloss

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