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

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Division of State Government Accountability

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# **Compliance With the Reimbursable Cost Manual**

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## **State Education Department School for Language and Communication Development**

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Report 2017-S-59

April 2018

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# Executive Summary

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## Purpose

To determine whether the costs reported by the School for Language and Communication Development (SLCD) on its Consolidated Fiscal Reports (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 the expenses reported on SLCD's CFR for the fiscal year ended June 30, 2015, and certain expenses reported on SLCD's CFRs for the two fiscal years ended June 30, 2014.

## Background

SLCD is an SED-approved, not-for-profit special education provider located in Nassau County, New York. SLCD provides preschool special education services to children with disabilities who are between three and five years of age. SLCD is reimbursed for preschool special education services through rates set by SED. The reimbursement rates are based on financial information, including costs, that SLCD reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with the RCM requirements. For the three fiscal years ended June 30, 2015, SLCD reported approximately \$8.1 million in reimbursable costs on its CFRs for the three rate-based preschool special education programs (Programs) that it operated.

## Key Findings

For the three fiscal years ended June 30, 2015, we identified \$38,741 in ineligible costs that SLCD reported on its CFRs for the Programs. The ineligible costs included: \$28,271 in pension benefits for administrative employees that exceeded the benefits available to direct care preschool employees; \$7,152 in costs for a teacher assistant that was incorrectly charged to the Programs; \$3,220 in compensation that exceeded the regional median for an executive; and \$98 in other than personal service costs.

## Key Recommendations

### To SED:

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

### To SLCD:

- Ensure that 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

[Birch Family Services, Inc.: Compliance With the Reimbursable Cost Manual \(2016-S-74\)](#)

[Kennedy Child Study Center: Compliance With the Reimbursable Cost Manual \(2017-S-7\)](#)

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

**Division of State Government Accountability**

April 16, 2018

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

Dr. Ellenmorris Tiegerman  
Executive Director  
School for Language and  
Communication Development  
100 Glen Cove Avenue  
Glen Cove, NY 11542

Dear Ms. Elia and Dr. Tiegerman:

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 expenses submitted by the School for Language and Communication Development 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*. This 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](http://www.osc.state.ny.us)

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## Background

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The School for Language and Communication Development (SLCD) is a not-for-profit organization located in Nassau County, New York. SLCD 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 our audit period, SLCD operated three 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; and Preschool Special Education Itinerant Teacher services (collectively referred to as the Programs). The Programs served 99 children with special education needs from Nassau and Suffolk counties and New York City. SLCD is managed by an Executive Director and is overseen by a Board of Directors.

The counties that use SLCD's preschool special education services pay tuition to SLCD using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition paid. SED sets the special education tuition rates based on financial information, including costs, reported by SLCD 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 three fiscal years ended June 30, 2015, SLCD reported approximately \$8.1 million in reimbursable costs for the Programs on its CFRs.

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## Audit Findings and Recommendations

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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. For the three fiscal years ended June 30, 2015, we identified \$38,741 in costs that SLCD reported on its CFRs that did not comply with SED's requirements for reimbursement. The ineligible costs included \$38,643 in personal service costs and \$98 in other than personal service (OTPS) costs.

### Personal Service Costs

For the three fiscal years ended June 30, 2015, we identified \$38,643 in personal service costs that SLCD reported on its CFRs that were not allowable under SED's requirements.

#### *Excess Pension Costs*

The RCM states that fringe benefit reimbursement is subject to the principle that benefits for individual employees or officers/directors are proportionately similar to those received by other classes or groups of employees. We determined SLCD reported pension costs for administrative employees that ranged from 4 to 11 percent more than the pension costs for its direct care preschool employees. As a result, SLCD reported \$28,271 in excess fringe benefits for administrative employees for the three years ended June 30, 2015.

#### *Non-Program-Related Costs*

According to the RCM, costs will be considered for reimbursement provided such costs are directly related to the special education programs. During the audit, SLCD officials informed the auditors they erroneously reported the costs of a teacher assistant who worked in the school-age program as a preschool program employee. As a result, SLCD reported \$7,152 in non-reimbursable personal service costs (\$5,709 in salary and \$1,443 in associated fringe benefits) for the fiscal year ended June 30, 2015.

#### *Excess Executive Compensation Costs*

The RCM states that compensation (including salaries and fringe benefits) for an Assistant Executive Director should be consistent with the regional median compensation for comparable administration job titles of public school districts, as determined and published annually by SED. Accordingly, reimbursement of employee compensation for this job title shall not exceed the median salaries paid to comparable personnel in regional public schools for similar work and hours of employment. We found that SLCD reported \$3,220 in personal service costs (\$2,309 in salary and \$911 in associated fringe benefits) for an employee reported on the CFR as the Assistant Executive Director that exceeded the regional median compensation for a comparable position. SED had previously identified these costs as ineligible.

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## Other Than Personal Service Costs

According to the RCM, costs for food provided to any staff are not reimbursable. We found that, for the fiscal year ended June 30, 2015, SLCD reported costs for bottled water for staff (\$98), which were ineligible for reimbursement.

## Recommendations

### To SED:

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

### To SLCD:

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

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## Audit Scope, Objective, and Methodology

We audited the costs that SLCD reported on its CFR for the fiscal year ended June 30, 2015 and certain costs reported on its CFRs for the two fiscal years 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 evaluate the internal controls over the costs claimed on, and the schedules prepared in support of, the CFRs submitted to SED, we reviewed the RCM and CFR Manual and its appendices that applied to the years we examined. We also interviewed SLCD personnel to obtain an understanding of their practices for reporting costs on the CFR. We reviewed SLCD's CFRs for the three fiscal years ended June 30, 2015 and relevant financial records for the audit period. We obtained accounting records and supporting information to assess whether certain costs claimed by SLCD on the CFRs that were considered high risk and reimbursable under limited circumstances (such as pension benefits and executive compensation) were properly calculated, adequately documented, and allowable.

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

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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

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We provided a draft copy of this report to SED and SLCD 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 SLCD 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.



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## Contributors to This Report

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**Andrea Inman**, Audit Director  
**Ed Durocher**, CIA, Audit Manager  
**Brian Krawiecki**, Audit Supervisor  
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## Division of State Government Accountability

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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

**School for Language and Communication Development  
Schedule of Submitted and Disallowed Program Costs  
for the Three Fiscal Years Ended June 30, 2015**

<b>Program Costs</b>	<b>Amount per CFR</b>	<b>Amount Disallowed</b>	<b>Amount Remaining</b>	<b>Notes to Exhibit</b>
Personal Services	\$7,475,081	\$38,643	\$7,436,438	A-C
Other Than Personal Services	650,834	98	650,736	D
<b>Total Program Costs</b>	<b>\$8,125,915</b>	<b>\$38,741</b>	<b>\$8,087,174</b>	

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## Notes to Exhibit

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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 SLCD officials during the course of the audit.

- A. RCM Section II.13.B.2.c: Reimbursement of fringe benefit expenses shall be subject to the following principles: benefits including pensions, life insurance, and Tax Sheltered Annuities (TSAs) for individual employees or officers/directors are proportionately similar to those received by other classes or groups of employees.
- B. RCM, Section II.13.A.4.a: Compensation (salaries plus fringe benefits) for an entity's staff whose function is Executive Director, Assistant Executive Director, or Chief Financial Officer will be directly compared to the regional median salary compensation for comparable administrative job titles of public school districts, as determined and published annually by SED's Basic Educational Data Systems. Reimbursement of employee compensation for these job titles shall not exceed the median compensation paid to comparable personnel in public schools for similar work and hours of employment in the region in which the entity is located. Compensation for an Assistant Executive Director and Chief Financial Officer will be compared to the median compensation for "Assistant Superintendent."
- C. RCM Section II: Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented.
- D. RCM Section II.22.C: Costs of food provided to any staff, including lunchroom monitors, 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  
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April 9, 2018

Ms. Andrea Inman  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236

Dear Ms. Inman:

The following is the New York State Education Department's (Department) response to the draft audit report, 2017-S-59, Compliance with the Reimbursable Cost Manual: School for Language and Communication Development (SLCD).

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on SLCD's CFRs and to SLCD'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 SLCD 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 SLCD 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 Policy at 518/474-3227.

Sincerely,

Sharon Cates-Williams

c: Christopher Suriano  
Hal Matott  
Suzanne Bolling

# Agency Comments - School for Language and Communication Development



Pamela A. Madeiros  
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March 26, 2018

## VIA ELECTRONIC EMAIL

Andrea Inman  
Office of the State Comptroller  
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Albany, New York 12236-0001

**RE: State Education Department  
Compliance With the Reimbursable Cost Manual  
School for Language and Communication Development  
Draft Report 2017-S-59**

Dear Ms. Inman:

We have reviewed the above-referenced Draft Report concerning the costs and expenses reported by the School for Language and Communication Development (SLCD) on its Consolidated Fiscal Report (CFR) for the fiscal year ending June 30, 2015, and certain expenses reported for the two fiscal years ending June 30, 2014, and the auditors' determination whether such costs and expenses were properly calculated, adequately documented, and allowable under the State Education Department's (SED's) guidelines, including the Reimbursable Cost Manual (RCM).

### **Personal Service Costs**

#### **Pension Expenses**

SLCD does not challenge the auditors' determination that employee pension benefits for select individuals may have been disproportionate to benefits awarded to other employees. SLCD had endeavored to recognize the superlative efforts of its administrative staff - - including coordinators, human resource staff/secretaries, maintenance workers, office staff, accounting personnel, information technology staff, and other administrative personnel - - through a pension contribution differential since such staff are not otherwise eligible for the bonuses available to direct care staff under the RCM.

SLCD will consider alternative approaches to expressing such recognition of effort.

#### **Program-Related Costs**

SLCD does not challenge the auditors' finding that the personal services expenses of a particular employee (\$5,709 in salary and \$1,443 in associated fringe benefits) were inadvertently reported as a

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Andrea Inman  
 March 26, 2018  
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preschool cost rather than a legitimate school-age program cost. SLCD has reviewed and strengthened its internal controls to prevent such errors from reoccurring.

#### Compensation

SLCD does not challenge the auditors' finding that a specific management position salary cost exceeded the regional median compensation for a comparable position by \$3,220, and appreciates the auditors' acknowledgement that "SED had previously identified these costs as ineligible" during the rate setting desk review process, and that the rates for reimbursement had been adjusted accordingly.

#### Other than Personal Service Costs

SLCD does not challenge the auditors' finding that the cost of bottled water for staff in the amount of \$98 was inadvertently reported as a reimbursable expense. SLCD has reviewed its cost reporting protocols to assure that such costs, while program related, are more appropriately reported as non-reimbursable.

. . . . .

We appreciate the opportunity to provide comment on the auditors' findings and note the professionalism displayed by the audit teams throughout the audit process.

Very truly yours,

GREENBERG TRAURIG, LLP

Pamela A. Madenos

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