

THOMAS P. DINAPOLI  
COMPTROLLER



110 STATE STREET  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

October 23, 2018

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

Ms. Katharine Bolender  
Director  
Kinderwise Learning Associates, LLC  
Post Office Box 429  
62 June Road  
North Salem, NY 10560

Re: Compliance With the Reimbursable  
Cost Manual  
Report 2018-S-21

Dear Ms. Elia and Ms. Bolender:

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 Kinderwise Learning Associates, LLC (Kinderwise) 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**

Kinderwise is an SED-approved, for-profit special education provider located in North Salem, New York. Kinderwise provides preschool special education services to children with disabilities who are between three and four years of age. For the fiscal year ended June 30, 2015, Kinderwise operated one rate-based preschool special education program: Preschool Special Education Itinerant Teacher Services (referred to as the Program). During the 2014-15 school year, Kinderwise provided these special education services to 177 children with learning disabilities from 28 school districts located in Dutchess, Putnam, and Westchester counties.

The counties that use Kinderwise's preschool special education services pay tuition to Kinderwise using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the special education tuition that the counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by Kinderwise on its 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 by the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2015, Kinderwise reported about \$1.65 million in reimbursable costs for the Program on its CFR.

### **Results of Audit**

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 fiscal year ended June 30, 2015, we identified \$1,946 in costs that were ineligible for reimbursement because they did not comply with SED's requirements for reimbursement.

#### ***Incorrectly Reported Costs***

According to the RCM, expenditures that cannot be charged directly to a specific program must be allocated across all programs that benefited from the expenditure. Additionally, costs that are attributable to the overall operation of the agency, but are not directly related to a specific program, are considered agency administration costs according to the RCM. For the fiscal year ended June 30, 2015, we identified \$1,194 in costs that were ineligible for reimbursement because they should have been either allocated to the other Kinderwise programs or reported as agency administration costs. The ineligible costs included:

- \$1,080 in costs (\$826 for supplies and \$254 for staff development) directly charged to the Program that should have been allocated to the Kinderwise Early Intervention program; and
- \$114 in staff development costs for a course attended by the Executive Director that should have been reported as agency administration costs.

#### ***Other Ineligible Costs***

According to SED's requirements, costs reported on the CFR are reimbursable provided such costs are sufficiently documented. In addition, costs for food are not reimbursable. For the fiscal year ended June 30, 2015, we identified \$752 in costs reported by Kinderwise that were ineligible for reimbursement because they were not in compliance with these RCM requirements. The ineligible costs included:

- \$492 in unsupported compensation (\$448 in salary and \$44 in associated fringe benefits) for a Program teacher;
- \$166 in unsupported costs for supplies; and
- \$94 for bottled water and other items for staff that are not reimbursable.

### **Recommendations**

#### **To SED:**

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

#### **To Kinderwise:**

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 that Kinderwise reported on its CFR for the fiscal year ended June 30, 2015. 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, we reviewed the RCM that applied to the year we examined as well as the CFR Manual and its appendices. We also evaluated the internal controls over the costs claimed on, and schedules prepared in support of, the CFR submitted to SED. We interviewed Kinderwise officials to obtain an understanding of their practices for reporting costs on the CFR. We reviewed Kinderwise's CFR for the year ended June 30, 2015 and relevant financial records for the audit period. We obtained accounting records and supporting information to assess whether a judgmental sample of costs claimed by Kinderwise on the CFR that were considered high risk or reimbursable under limited circumstances (such as allocated costs and food) 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.

### **Reporting Requirements**

We provided a draft copy of this report to SED and Kinderwise 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 individual responses, both SED and Kinderwise 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 Ed Durocher, Brian Krawiecki, Claudia Christodoulou, Brindetta Cook, and Innocentia Freeman.

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

Sincerely,

Andrea Inman  
Audit Director

cc: Harold Matott, State Education Department  
James Kampf, State Education Department  
Karla Ravida, State Education Department

# 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  
F: 518.474-5392

September 20, 2018

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

Dear Ms. Inman:

The following is the New York State Education Department's (SED) response to the draft audit report, 2018-S-21, Compliance with the Reimbursable Cost Manual: Kinderwise Learning Associates, LLC (Kinderwise).

Recommendation 1:

Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on Kinderwise's CFR and to Kinderwise'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 Kinderwise 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 Kinderwise 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, 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. This training is a requirement for preschool special education providers upon approval and reapproval.

If you have any questions regarding this response, please contact James Kampf, Supervising Accountant, at (518) 474-3227.

Yours truly,

Sharon Cates-Williams  
Deputy Commissioner

c: Christopher Suriano  
Harold Matott  
James Kampf

# Agency Comments - Kinderwise Learning Associates, LLC



**KinderWise**  
*Specializing in Early Learning*

---

October 2, 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

Re: Audit 2018-S-21

Dear Ms. Inman,  
Please find the following response to the Draft Audit Report listed above for Kinderwise Learning Associates by the Office of the State Comptroller ("OSC").

OSC: Incorrectly Reported Costs

This section included a total of \$1,194 in costs deemed ineligible for reimbursement by OSC. The finding included costs that OSC identified of \$1,080 that should have been allocated to Early Intervention and that \$114 of staff development that should have been reported as agency administration costs.

**Kinderwise Learning Associates Response: We agree with the above finding.**

OSC: Other Ineligible Costs

This section included a total of \$752 in which OSC deemed ineligible for reimbursement to include compensation, supplies and water.

**Kinderwise Learning Associates Response: We agree with the above finding.**

Kinderwise has noted the above recommendations and findings and will incorporate in future reporting. We want to thank you for your professional audit and courtesies extended to our agency.

Sincerely,

Katharine Bolender  
Executive Director