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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  
The Child Study Center of New York**

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Report 2017-S-13

October 2017

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## Executive Summary

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### Purpose

To determine whether the costs reported by The Child Study Center of New York (CSC) 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 CSC's CFR for the fiscal year ended June 30, 2014.

### Background

CSC, a not-for-profit organization located in Jericho, New York, is authorized by SED to provide preschool special education services to children with disabilities who are between three and five years of age. CSC is reimbursed for preschool special education services through rates set by SED. These reimbursement rates are based on financial information, including costs, that CSC 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, CSC reported approximately \$5.9 million in reimbursable costs on its CFR for two rate-based preschool special education programs (Programs) it operated.

### Key Findings

For the fiscal year ended June 30, 2014, we identified \$127,101 in ineligible costs that CSC reported on its CFR for the Programs. The ineligible costs included:

- \$121,255 in employee fringe benefit costs that were incorrectly allocated to the Programs; and
- \$5,846 in ineligible costs for food, personal travel, gifts, and other non-reimbursable expenses.

### Key Recommendations

#### To SED:

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

#### To CSC:

- 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

[Center for Disability Services: Compliance With the Reimbursable Cost Manual \(2015-S-40\)](#)

[The Arc of Orange County: Compliance With the Reimbursable Cost Manual \(2015-S-45\)](#)

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

**Division of State Government Accountability**

October 6, 2017

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

Ms. Patricia Addae  
Executive Director  
The Child Study Center of New York  
366 North Broadway  
Jericho, NY 11753

Dear Ms. Elia and Ms. Addae:

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 The Child Study Center of New York 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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**State Government Accountability Contact Information:**

**Audit Director:** Andrea Inman

**Phone:** (518) 474-3271

**Email:** [StateGovernmentAccountability@osc.state.ny.us](mailto:StateGovernmentAccountability@osc.state.ny.us)

**Address:**

Office of the State Comptroller  
 Division of State Government Accountability  
 110 State Street, 11th Floor  
 Albany, NY 12236

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 Child Study Center of New York (CSC), a not-for-profit organization located in Jericho, New York, is authorized by the State Education Department (SED) to provide, among other programs, preschool special education services to children with learning disabilities who are between three and five years of age. During the audit period, CSC provided two (rate-based) preschool special education programs to about 190 students from 13 different school districts in Brooklyn and Staten Island: Preschool Special Class - Full Day and Preschool Integrated Special Class - Full Day (collectively referred to as the Programs).

The counties that use CSC's preschool special education services pay tuition to CSC 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 CSC 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, CSC reported approximately \$5.9 million in reimbursable costs for the Programs on its CFR.

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## Audit Findings and Recommendations

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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 \$127,101 in costs that CSC reported on its CFR for the Programs that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$121,255 in personal service costs and \$5,846 in other than personal service costs.

### Personal Service Costs

For the fiscal year ended June 30, 2014, we identified \$121,255 in personal service costs that were not eligible for reimbursement. The ineligible costs consisted of mandated and non-mandated fringe benefits that were incorrectly allocated to the Programs.

Fringe benefits include employee benefits that are required by State and federal law, such as employer contributions for Social Security and workers' compensation, as well as benefits that are not mandated by State or federal law, such as employer contributions to health insurance and retirement benefits. The RCM states that the costs of benefits for employees who provide services to more than one program and/or entity must be allocated to those separate programs and/or entities in proportion to the salary expense allocated to each program.

We determined CSC allocated its salary expenses directly to the programs that incurred the expense, based on employees' time worked. However, CSC did not use the same direct charge allocations for the employees' corresponding fringe benefit costs. As a result, CSC overallocated \$121,255 in fringe benefit costs to the Programs that should have been allocated to CSC's non-rate-based programs. Of this amount, \$110,740 was for non-mandated fringe benefits and \$10,515 was for mandated fringe benefits.

### Other Than Personal Service Costs

For the fiscal year ended June 30, 2014, we identified \$5,846 in other than personal service costs that were not eligible for reimbursement. According to the RCM, costs for food, gifts, and personal travel, charitable donations, and costs resulting from violations of or failure by the entity to comply with federal, State, and/or local laws and regulations are not reimbursable. Additionally, costs reported on the CFR are considered for reimbursement if they are adequately documented. We identified \$5,846 in costs that were ineligible for reimbursement because they were not in compliance with these RCM requirements. The ineligible costs included:

- \$2,554 for food;
- \$2,040 for personal travel;
- \$796 for gifts;
- \$241 in expenses that did not have sufficient supporting documentation;
- \$115 for a parking ticket; and
- \$100 for a charitable donation.

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## Recommendations

### To SED:

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

### To CSC:

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 CSC 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 CSC's internal controls as they related to costs that CSC reported on the CFR. We also interviewed CSC personnel to obtain an understanding of the practices for reporting costs on the CFR. We reviewed CSC'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 CSC on the CFR that we considered high risk and reimbursable in limited circumstances, such as fringe benefits, local travel, and food expenses, 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.

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## 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.

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## Reporting Requirements

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We provided a draft copy of this report to SED and CSC 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 SED's response, officials agreed with the audit recommendations and indicated the actions they will take to address them. In CSC's response, officials indicated they make every effort to comply with the RCM, but feel the RCM's guidance "is not always very clear." As stated in audit recommendation number 3, we encourage CSC officials to communicate with SED to obtain clarification as needed.

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  
**Christopher Morris**, Audit Supervisor  
**Lauren Bizzarro**, Examiner-in-Charge  
**Anthony Calabrese**, Senior Examiner  
**Brindetta Cook**, Staff Examiner

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## Division of State Government Accountability

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Andrew A. SanFilippo, Executive Deputy Comptroller  
518-474-4593, [asanfilippo@osc.state.ny.us](mailto:asanfilippo@osc.state.ny.us)

Tina Kim, Deputy Comptroller  
518-473-3596, [tkim@osc.state.ny.us](mailto:tkim@osc.state.ny.us)

Ken Shulman, Assistant Comptroller  
518-473-0334, [kshulman@osc.state.ny.us](mailto:kshulman@osc.state.ny.us)

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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

**The Child Study Center of New York  
Schedule of Submitted and Disallowed Program Costs  
for the Fiscal Year June 30, 2014**

Program Costs	Amount per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services				
Direct Charges	\$4,468,640	\$121,255	\$4,347,385	A
Agency Administration	575,084	0	575,084	
<b>Total Personal Services</b>	<b>\$5,043,724</b>	<b>\$121,255</b>	<b>\$4,922,469</b>	
Other Than Personal Services				
Direct Charges	\$761,455	\$5,112	\$756,343	B–G
Agency Administration	142,384	734	141,650	B
<b>Total Other Than Personal Services</b>	<b>\$903,839</b>	<b>\$5,846</b>	<b>\$897,993</b>	
<b>Total Program Costs</b>	<b>\$5,947,563</b>	<b>\$127,101</b>	<b>\$5,820,462</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 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 CSC officials during the course of the audit.

- A. RCM Section II.13.B.(2)(b): Costs of benefits for employees who provide services to more than one program and/or entity must be allocated to separate programs and/or entities in proportion to the salary expense allocated to each program.
- B. RCM Section II.22.C: Costs of food provided to any staff, including lunchroom monitors, are not reimbursable.
- C. RCM Section II.20.B: All personal expenses, such as personal travel expenses, are not reimbursable.
- D. RCM Section II.24: Gifts of any kind are non-reimbursable.
- E. RCM Section II – Cost Principles: Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented.
- F. RCM Section II.21: Costs resulting from violations of or failure by the entity to comply with federal, State and/or local laws and regulations are not reimbursable.
- G. RCM Section II.16: Political and charitable contributions and donations made by the program 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  
F: 518.474-5392

September 28, 2017

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-13, Compliance with the Reimbursable Cost Manual: The Child Study Center of New York (CSC).

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

Yours truly,

  
Sharon Cates-Williams  
Deputy Commissioner

cc: Thalia Melendez  
Christopher Suriano  
Suzanne Bolling

# Agency Comments - The Child Study Center of New York

## The Child Study Center of New York

### Administrative Office

366 North Broadway, Suite 304  
Jericho, NY 11753  
Tel (516) 822-1192  
Fax (516) 822-1084  
childstudycr@aol.com

### Brooklyn School

167 Clermont Ave.  
Brooklyn, NY 11205  
Tel (718) 854-3710  
Fax (718) 854-3740

### Staten Island School

285 Clove Road  
Staten Island, NY 10310  
Tel (718) 442-8588  
Fax (718) 442-6737

September 12, 2017

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

Dear Ms. Inman:

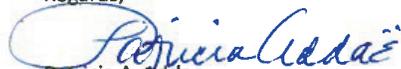
In response to your audit report for The Child Study Center of New York ("CSC") for the year ended June 30, 2014, we would like to express our concern over the audit disallowances. The preschool special needs children that we serve require all of our available resources in order to learn how to adapt and thrive in the frequently challenging world that we live in.

The Child Study Center of New York was established in 1981 to aid in developing the lives of children with special needs at preschool age using the disciplines of psychology, speech, occupational, physical and art and music therapy. At CSC we believe early childhood services play a significant role in the development of our children. The Philosophy of CSC is to provide developmentally appropriate programs and services while providing a safe and nurturing environment that enables each child to function at his or her full potential.

CSC strives at all times to demonstrate integrity and quality in complying with funders and regulatory requirements. We make every effort to adhere to the Reimbursable Cost Manual (RCM). However, as many have learned, the guidance in the RCM is not always very clear. As an Organization, we do our very best. We are requesting that the NYS Education Department allow us to retain these resources that are sorely needed to take care of our most vulnerable children.

We thank you for your cooperation, understanding, and ongoing support.

Regards,

  
Patricia A. Addae  
Executive Director