

THOMAS P. DINAPOLI
COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 11, 2019

Ms. Shannon Tahoe
Interim Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Ms. Margi Carter
Executive Director
Children's Development Group, PLLC
1701 Front Street
Keeseville, NY 12944

Re: Compliance With the Reimbursable
Cost Manual
Report 2019-S-30

Dear Ms. Tahoe and Ms. Carter:

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 Children's Development Group, PLLC (CDG) 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

CDG is an SED-approved, for-profit special education provider with administrative offices in Keeseville and classroom locations in Elizabethtown and Ticonderoga. CDG provides preschool special education services to children with developmental disabilities who are between three and five years of age. During the 2015-16 school year, CDG's Preschool Integrated Special Class – over 2.5 hours per day (Program) provided these services to 18 children from nine school districts located in Washington and Essex counties.

The counties that use CDG's special education services pay tuition to CDG using tuition reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5

percent of the tuition amount paid. SED sets the reimbursement rates for providers based on financial information, including costs, that providers report on the annual Consolidated Fiscal Report (CFR) they submit to SED. Costs reported on the CFR must comply fully with the guidelines in SED's Reimbursable Cost Manual (RCM) regarding eligibility and documentation requirements and with the reporting requirements in SED's Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the reporting year ended June 30, 2016, CDG reported \$427,599 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. Additional requirements apply to some costs, such as personal service costs and consulting services. For CDG's reporting year ended June 30, 2016, we identified costs reported for the Program that did not comply with the RCM's requirements for reimbursement. After calculating the portion of these costs that did not comply with applicable requirements, we recommend that SED disallow \$166,676, including \$110,989 in personal service costs and \$55,687 in other than personal service costs.

Personal Service Costs

The RCM states that the salaries of employees who perform tasks for more than one program or entity must be allocated among all programs or entities for which they work. Actual hours of service are the preferred statistical basis upon which to allocate salaries and fringe benefits for shared staff who work on multiple programs. Entities must maintain appropriate documentation reflecting the hours used for allocating salaries. Acceptable documentation may include payroll records or time studies.

For the reporting year ended June 30, 2016, CDG reported \$246,590 in Program-related personal service costs and related fringe benefits on its CFR. Of this amount, we identified \$110,989 (\$100,135 in wages and \$10,854 in fringe benefits) for which CDG could not provide appropriate supporting documentation demonstrating that the work related to the Program.

Other Than Personal Service Costs

Undocumented or Inadequately Documented Costs

According to the RCM, to be considered for reimbursement, costs reported on the CFR must be adequately documented. For example, costs associated with legal, accounting, or consulting services must be supported by itemized invoices that indicate the specific services actually provided, the date(s) and number of hours provided, the fee per hour, and the total amount charged for each service. Costs related to vehicle use must be documented with individual vehicle logs that include, at a minimum, the name of the traveler, date and time of travel, "to" and "from" destinations, mileage between destinations, and purpose of travel. We identified \$48,881 in costs that did not meet one or more of the RCM requirements related to documentation and are therefore ineligible for reimbursement, as follows:

- \$20,753 in insurance premiums;
- \$10,167 in property lease expenses;
- \$8,266 in accounting service expenses for which invoices lacked the required description of the specific services provided;
- \$4,910 in accounting service expenses;
- \$2,680 in vehicle-related expenses, including fuel, insurance, and depreciation, for which CDG did not maintain vehicle logs;
- \$1,461 in phone, utility, and equipment depreciation expenses;
- \$388 in vehicle-related expenses, such as fuel and car washes; and
- \$256 in office expenses for which there was either no receipt or the receipt lacked sufficient detail.

We also note that the accounting costs CDG reported on the CFR – and charged to the Program – exceeded the costs reported on both its audited financial statements and its general ledger for all its programs. CDG reported a total of \$19,638 in entity-wide accounting costs for the reporting year ended June 30, 2016 on its general ledger, and the audited financial statements reflected the same amount. Yet, on its CFR, CDG reported accounting costs totaling \$24,548, a difference of \$4,910 (included in above list).

Non-Program-Related Costs

According to the RCM, costs reported on the CFR are considered for reimbursement if they are directly related to the special education program. CDG's Program hours were the first 5 hours of each day the Program ran; a separate day care program operated in the same space for the subsequent 3.5 hours. As such, the cost for the space was shared between the two programs and should have been reported on the CFR using an appropriate allocation method allowed under SED guidelines, such as one based on hours of operation. However, CDG reported the total cost to lease the space as a Program cost on the CFR. We identified \$6,806 in non-Program-related costs on CDG's CFR that are not eligible for reimbursement, which included \$6,780 in day care program-related costs (\$6,176 for leased space and \$604 in other costs) and \$26 in other non-Program-related costs.

Other Matters – Grant Costs

According to the RCM, providers must report grants awarded under the Individuals with Disabilities Education Act (IDEA) on the CFR and must report the related expenditures in separate cost columns on the CFR. Providers must also maintain verified source documents to support audit inquiries.

CDG reported \$44,032 in IDEA grant funding on its CFR for the reporting year ended June 30, 2016, but reported no related expenses. CDG officials told us that they did not know they were required to report expense information and that the funds had been

spent the subsequent school year ended June 30, 2017. Because there was inadequate documentation to support that certain reported costs, such as personal service costs, were Program related for the reporting year ended June 30, 2016, we could not determine whether any IDEA-related grant expenses were included among the Program costs we audited.

Recommendations

To SED:

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

To CDG:

3. Ensure that all costs reported on annual CFRs fully comply with SED requirements, and communicate with SED to obtain clarification as needed.
4. Take steps to improve record keeping and documentation to support the related costs reported on annual CFRs.

Audit Scope, Objective, and Methodology

We audited the costs that CDG reported on its CFR for the reporting year ended June 30, 2016. 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 related appendices. We interviewed SED officials to obtain an understanding of the CFR and of the policies and procedures contained in the RCM and the CFR Manual. We evaluated CDG's internal controls as they related to costs it reported on the CFR. We also interviewed CDG officials and reviewed the CDG financial policies and procedures, employee handbook, and relevant employee job descriptions to obtain an understanding of CDG's practices for reporting costs on the CFR. We reviewed CDG's CFR for the reporting year ended June 30, 2016 and relevant financial records for the audit period. In addition, we selected judgmental samples of reported costs, considering risks such as properly allocating costs among programs and between direct and non-direct categories, to determine whether they were supported, Program related, and reimbursable. Our sample results were not designed to be projected – and we did not project them – to the entire population of reported costs.

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 that provides 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. Additionally, 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 CDG officials for their review and formal written comment. We considered their comments in preparing this report and have included them in their entirety at the end of this report. In their responses, SED and CDG officials generally agreed with the audit recommendations and indicated the actions they will take, or have taken, to address them. CDG officials acknowledged the need to improve their documentation practices. SED officials stated that they will review the recommended disallowances and take any necessary action that is appropriate.

Within 180 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.

Major contributors to this report were Sharon Salembier, Laurie Burns, Christi Martin, Ann Marie Miller, and James Rappaport.

We thank the management and staff of SED and CDG for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Brian Reilly, CFE, CGFM
Audit Director

cc: Sharon Cates-Williams, State Education Department
James Kampf, State Education Department
Traci Coleman, State Education Department

Brian Zawistowski, State Education Department
Phyllis Morris, 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
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November 27, 2019

Mr. Brian Reilly
Audit Director
Division of State Government Accountability
NYS Office of the State Comptroller
59 Maiden Lane, 21st Floor
New York, NY 10038

Dear Mr. Reilly:

The following is the New York State Education Department's (SED) response to the draft audit report, 2019-S-30, Children's Development Group, PLLC (CDG) - Compliance With the Reimbursable Cost Manual.

Recommendation 1:

"Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on CDG's CFR and to CDG'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.

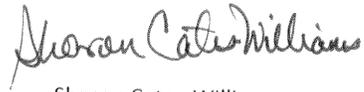
Recommendation 2:

"Remind CDG 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 CDG officials avail themselves of our assistance to help them better understand the rules for cost reporting and criteria for cost reimbursement as presented in the CFR, Regulation and the Reimbursable Cost Manual (RCM). Furthermore, SED will alert CDG of online CFR training that is available on SED's webpage. SED recommends that all individuals signing the CFR certification statements, namely the Executive Director and Certified Public Accountant, 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 Brian Zawistowski, Assistant Director of the Rate Setting Unit, at (518) 474-3227.

Sincerely,

A handwritten signature in black ink that reads "Sharon Cates-Williams". The signature is written in a cursive style with a large initial 'S'.

Sharon Cates-Williams

c: Phyllis Morris
Christopher Suriano
Suzanne Bolling
Traci Coleman
Brian Zawistowski
James Kampf

Agency Comments - Children's Development Group



**CHILDREN'S
DEVELOPMENT GROUP** for **Speech, OT, PT, and
Psychological Services, PLLC**

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Brian Reilly
Audit Director
State of New York
Office of the State Comptroller
110 State Street
Albany, NY 12236

December 4, 2019

Subject: Response to Draft Audit Response Report 2019-S-30, Compliance with the Reimbursable Cost Manual, Children's Development Group for Speech, OT, PT, and Psychological Services, PLLC

Dear Mr. Reilly:

On behalf of Children's Development Group for Speech, OT, PT, and Psychological Services, PLLC, Margi Carter, Executive Director, is providing the response to the above referenced audit report.

I would like to thank the audit team for their professionalism during this audit process.

Please do not hesitate to contact me should you have any questions.

Sincerely,
Margi Carter

Margi Carter, MA, CCC-SLP, CAS
Executive Director



Results of the Audit, Personal Service Costs

Personal Service Costs:

For the reporting year ended June 30, 2016, CDG reported 246,590 in Program related personal service costs and related fringe benefits on its CFR. Of this amount, the audit identified \$110,989 (\$100,135 in wages and \$10,854 in fringe benefits) for which CDG could not provide appropriate supporting documentation demonstrating their work related to the Program.

Response

CDG recognizes the error and has implemented a better method to track the work of individuals related to the Program. In the past, CDG has had the certified financials completed prior to the CFR, however in doing that, errors were found after the fact that affected the information put in the CFR to match the certified financials. CDG has now implemented a better checks and balances of how information is being categorized by the bookkeeper and will complete the CFR prior to the certified financial report being completed to catch any bookkeeping errors.

Results of the Audit, Other than Personal Service Costs

Undocumented or Inadequately Documented Costs

The audit identified \$48,144 in costs that did not meet one or more of the RCM requirements related to documentation

Response

CDG believes that the insurance premiums, property leases expenses, and accounting service expenses, should be approved as they are clearly related to the agency expense. CDG has since discussed the documentation with the accountants and have received a more detailed account of services.

[Comment 1](#)

CDG recognizes the error with documentation for vehicle expense and Margi Carter, Executive Director has personally taken over the vehicle payment expenses. Mileage will be reimbursed only with appropriate mileage documentation as indicated in the audit report.

CDG recognizes missing receipts for office expenses

CDG recognizes the need for improved documentation for all expenses and has implemented a better tracking policy.

Results of the Audit, Grant Costs

Other Matters-Grant Costs

The audit found that IDEA grant costs were not properly documented or tracked

Response

CDG recognizes a lack of clarity with understanding how the grants are used and tracked. CDG has implemented a better tracking policy for documentation of use of IDEA related grant monies.

State Comptroller's Comment

1. To be approved for reimbursement under SED guidelines, reported costs must meet documentation requirements. Our recommended disallowances for these costs were due to CDG not meeting one or more RCM documentation requirements. For at least one of these costs, the amount CDG reported on its CFR exceeded the amount it paid, according to the information CDG provided.