

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 5, 2015

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

Ms. Mary Boatfield
President
Finger Lakes United Cerebral Palsy
731 Pre-Emption Road
Geneva, NY 14456

Re: Compliance With the Reimbursable Cost
Manual: Finger Lakes United Cerebral
Palsy
Report 2015-S-10

Dear Ms. Elia and Ms. Boatfield:

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 Finger Lakes United Cerebral Palsy (Happiness House) 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

Happiness House, a not-for-profit organization located in the Finger Lakes Region of Central New York, is authorized by SED to provide preschool special education services to children with disabilities from three to five years of age. During the 2012-13 school year, Happiness House provided preschool special education services to about 150 children with learning disabilities in Geneva, Canandaigua, and Waterloo, NY. The SED rate-based programs included in our audit scope were the Preschool Special Class - over 2.5 hours per day, Preschool Special Education Itinerant Teacher Services, and Preschool Integrated Special Class - over 2.5 hours per day (collectively referred to as the Programs).

The counties that use Happiness House's preschool special education services pay tuition to Happiness House using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the special education tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by Happiness House on its annual Consolidated Fiscal Reports (CFRs) filed with 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 meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2013, Happiness House reported about \$3.4 million in reimbursable costs on its CFR for the Programs.

Results of Audit

According to SED guidelines, costs reported on the CFR should be reasonable, necessary, directly related to the special education program, and properly documented. For the fiscal year ended June 30, 2013, we identified \$15,454 in costs charged to the Programs that did not comply with SED's requirements for reimbursement. These costs included \$13,570 in other than personal service (OTPS) costs and \$1,884 in personal service costs that were either ineligible expenses, not reasonable or necessary, not properly documented, or incorrectly reported on the CFR.

Other Than Personal Service Costs

We reviewed Happiness House's OTPS costs reported on their 2012-13 CFR and identified non-reimbursable costs totaling \$13,570 allocated to the Programs. Specifically, we found the following:

- \$4,909 for food and beverages provided to staff. According to the RCM, the cost of food provided to any staff is not reimbursable.
- \$2,983 for staff merit rewards and gifts that did not meet RCM requirements for reimbursement. The RCM states that merit rewards for staff are restricted to direct-care employees and must be based on merit as measured and supported by employee performance evaluations. We found that Happiness House claimed merit rewards for certain non-direct-care employees and rewards were not always supported by employee performance evaluations.
- \$2,732 for costs that lacked receipts or other necessary documentation, including advertisements. According to the RCM, expenses must be properly documented and copies of advertisements should be made available for review upon request.
- \$1,511 for lodging for employees who did not meet the requirements for overnight travel reimbursement and for mileage for privately owned vehicles that was not supported by detailed travel logs indicating dates of travel, destination, program business purpose, supervisory approval, and other items as required by the RCM.
- \$508 for miscalculated square footage used to allocate expenses relating to maintenance of the school's heating, ventilating, and air conditioning system.
- \$425 for administrative costs incorrectly expensed to the Programs.
- \$330 for expenses that were not necessary for the operation of one of the Programs, such

as reimbursement for defensive driving courses and t-shirts for staff.

- \$172 for accounting errors in journal entries that should have been reversed.

Personal Service Costs

According to the RCM, bonus compensation is restricted to direct care employees and is a non-recurring and non-accumulating (i.e., not included in base salary of subsequent years) lump sum payment in excess of regularly scheduled salary that is not directly related to hours worked. To be reimbursable, bonus compensation must be based on merit, as measured and supported by employee performance evaluations. We identified \$1,884 in bonus payments allocated to the Programs that were either paid to non-direct care employees or were not based on or supported by employee performance evaluations.

Recommendations

To SED:

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

To Happiness House:

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements.

Audit Scope, Objective, and Methodology

We audited the expenses submitted by Happiness House on its CFR for the year ended June 30, 2013. The objective of our audit was to determine whether the costs submitted by Happiness House on its CFR were properly calculated, adequately documented, and allowable under SED's guidelines, including the RCM.

To accomplish our objective and assess internal controls related to our objective, we reviewed Happiness House's 2012-13 CFR and financial statements. We interviewed Happiness House officials and staff to obtain an understanding of their financial practices relating to the expenses reported on Happiness House's CFR. We also interviewed SED officials and obtained an understanding of the CFR, as well as the policies and procedures contained in the RCM and CFR Manual. To complete our audit work, we reviewed supporting documentation for a judgmental sample of costs submitted by Happiness House on its CFR that were considered high risk and reimbursable in limited circumstances, such as food and entertainment expenses, travel expenses, and employee bonuses, and made a determination of whether the costs complied with and were allowable by the RCM and CFR Manual.

We conducted our performance audit in accordance with generally accepted government

auditing standards. These 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 (some of whom have minority voting rights) to certain boards, commissions, and public authorities. 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 Happiness House 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, officials agreed with our 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 David Fleming, Chris Morris, Jennifer Habib, Bruce Brimmer, and Joe Paduano.

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

Sincerely,

Andrea Inman
Audit Director

cc: Andrew Fischler, Audit Manager - Office of Audit Services, SED
Suzanne Bolling, Director of Special Education Fiscal Services, SED

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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October 15, 2015

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 (Department) response to the draft audit report, 2015-S-10, Compliance with the Reimbursable Cost Manual: Finger Lakes United Cerebral Palsy (Happiness House).

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to Happiness House's reimbursement rates.

We agree with this recommendation. The Department 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 Happiness House officials of the pertinent SED guidelines that relate to the deficiencies we identified.

We agree with this recommendation. The Department will continue to provide technical assistance whenever requested and will strongly recommend that Happiness House officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual. In addition, Consolidated Fiscal Report (CFR) training is available at six locations across the State and online on the Department's webpage. The training is recommended for all individuals signing CFR certification statements, namely Executive Directors and Certified Public Accountants, and is required for preschool special education providers upon approval and reapproval. Furthermore, the Department intends to require that the training be mandatory for all providers.

If you have any questions regarding this response, please contact Suzanne Bolling, Director of Special Education Fiscal Services at 518/474-3227.

Sincerely,

A handwritten signature in cursive script that reads "Sharon Cates-Williams".

Sharon Cates-Williams

c: James P. DeLorenzo
Suzanne Bolling

Agency Comments - Happiness House



What happens here changes lives forever.

Mary Walsh Boatfield
Chief Executive Officer

October 5, 2015

Andrea Inman
Audit Director
Office of the State Comptroller
State of New York
110 State Street
Albany, NY 12236

Re: Report 2015-S-10

Dear Ms. Inman:

We received the draft report for the 2012-13 preschool fiscal audit performed by your office on Finger Lakes United Cerebral Palsy, Inc. on September 15, 2015 via email. There are generally two areas of findings: (1) items defined as non-allowable and (2) errors or missing documentation.

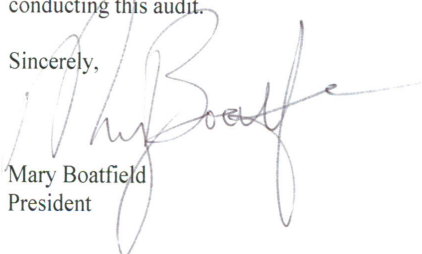
For the items defined as non-allowable, we agree with the draft audit findings. Prior to your audit and starting with the 2013-14 year, we made a concerted effort to review our systems and made some changes that address these areas. In the 2013-14 school-year, we revised our bonus policy to include performance based criteria to be used in determination of the bonus awards. In addition, starting with the 2013-14 CFR, food and meeting expenses were classified as non-allowable expenses on the CFR-1 and CFR-3 or reported as other on CFR-5.

For the items described as lacking documentation or incorrectly allocated, we work diligently to avoid these types of errors but will continue to increase our efforts.

During the 2012-13 reconciliation process, we had over \$100,000 of unreimbursed costs due to the SED rate methodology zero growth total cost screen. It is our understanding that the disallowance of the audit findings totaling \$15,454 would be netted out by that screen.

We would like to thank the audit team performing this review for their diligence and professionalism in conducting this audit.

Sincerely,


Mary Boatfield
President