



New York State Comptroller
THOMAS P. DiNAPOLI

Mary Cariola Children's Center, Inc. – Compliance With the Reimbursable Cost Manual

State Education Department

Report 2020-S-25 | December 2020

Spotlight on Education



Audit Highlights

Objective

To determine whether the costs reported by Mary Cariola Children’s Center, Inc. (Mary Cariola) 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) and the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). The audit covered expenses reported on Mary Cariola’s 2015 and 2016 CFRs for the fiscal year ended June 30, 2016.

About the Program

Mary Cariola is a not-for-profit organization located in Monroe County. Among other programs, Mary Cariola provides preschool special education services to children with disabilities who are three and four years of age. Mary Cariola is reimbursed for these services through rates set by SED. The reimbursement rates are based on financial information, including costs that Mary Cariola 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, 2016, Mary Cariola reported approximately \$2.6 million in reimbursable costs on its CFR for the Preschool Special Class – over 2.5 hours per day and Preschool Special Class – 2.5 hours per day (collectively referred to as Programs) that it operated.

Key Findings

For the fiscal year ended June 30, 2016, we identified \$12,744 in ineligible costs that Mary Cariola reported on its CFRs for the Programs. The ineligible costs included:

- \$10,063 in personal service costs consisting of \$9,025 in non-reimbursable compensation not supported by employee time records and \$1,038 in executive bonus compensation.
- \$2,681 in other than personal service costs consisting of \$2,604 in non-allowable agency administration costs and \$77 in non-allowable food and miscellaneous items.

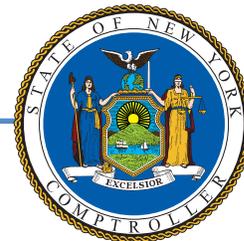
Key Recommendations

To SED:

- Review the disallowances identified by our audit and make the necessary adjustments to the costs reported on Mary Cariola’s CFRs and to Mary Cariola’s tuition reimbursement rates, as appropriate.
- Remind Mary Cariola officials of the pertinent SED guidelines that relate to the deficiencies we cited.

To Mary Cariola:

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



Office of the New York State Comptroller Division of State Government Accountability

December 7, 2020

Dr. Betty A. Rosa
Interim Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Ms. Karen Zandi
President/Chief Executive Officer
Mary Cariola Children's Center, Inc.
1000 Elmwood Avenue
Rochester, NY 14620

Dear Dr. Rosa and Ms. Zandi:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for the 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, entitled *Compliance With the Reimbursable Cost Manual*, of our audit of expenses submitted by Mary Cariola Children's Center, Inc. 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. 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,

Division of State Government Accountability

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Glossary of Terms

Term	Description	Identifier
CFR	Consolidated Fiscal Report	<i>Key Term</i>
CFR Manual	Consolidated Fiscal Reporting and Claiming Manual	<i>Policy</i>
Mary Cariola	Mary Cariola Children's Center, Inc.	<i>Service Provider</i>
OTPS	Other than personal service	<i>Key Term</i>
Programs	Preschool Special Classes	<i>Key Term</i>
RCM	Reimbursable Cost Manual	<i>Policy</i>
SED	State Education Department	<i>Auditee</i>

Background

The Mary Cariola Children’s Center, Inc. (Mary Cariola) is a not-for-profit organization located in Monroe County. Mary Cariola is authorized by the State Education Department (SED) to provide, among other programs, preschool special education services to children with disabilities who are three and four years of age. During our audit, Mary Cariola operated two rate-based preschool special education programs: Preschool Special Class – over 2.5 hours per day and Preschool Special Class – 2.5 hours per day (collectively referred to as Programs). The Programs serve about 90 children with special education needs from Genesee, Monroe, Ontario, and Orleans counties.

The counties that use Mary Cariola’s preschool special education services pay tuition to Mary Cariola 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 Mary Cariola 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 ending June 30, 2016, Mary Cariola reported approximately \$2.6 million in reimbursable costs for the Programs.

Audit Findings and Recommendations

According to the RCM, costs reported on the CFR are considered for reimbursement if they are reasonable, necessary, directly related to the special education programs, and sufficiently documented. For the fiscal year ended June 30, 2016, we identified \$12,744 in costs that Mary Cariola reported on the 2015 and 2016 CFRs that did not comply with SED's requirements for reimbursement. The ineligible costs included \$10,063 in personal service costs and \$2,681 in other than personal service (OTPS) costs. A summary of the ineligible costs is presented in the Exhibit at the end of this report.

Personal Service Costs

For the fiscal year ended June 30, 2016, we identified \$10,063 in personal service costs charged to the Programs that were not allowable under SED's requirements.

Employee Salary Costs

The RCM states that payroll compensation costs must be based on approved and documented payrolls that must be supported by employee time records. We identified that Mary Cariola charged compensation for six employees that was not fully supported by employee time records to the Programs. Of the \$603,730 in compensation costs we reviewed, the unsupported charges resulted in an overstatement of \$9,025 (\$7,123 in salary and \$1,902 in fringe benefits) charged to the Programs for these employees.

Executive Bonus

According to the RCM, a merit award or bonus compensation shall mean a non-recurring and non-accumulating lump sum payment in excess of regularly scheduled salary that is not directly related to hours worked. Merit awards are restricted to direct care titles/employees and certain non-direct care titles such as food service workers and housekeeping. We found that the president/executive director (a non-direct care title) was awarded a bonus for the years ended December 31, 2015 and 2016 of \$13,464 and \$15,000, respectively. We disallowed \$11,216 and the portion of the ineligible bonus payments charged to the Programs was \$1,038 (\$954 in salary and \$84 in mandated fringe benefits).

Other Than Personal Service Costs

For the fiscal year ended June 30, 2016, we identified \$2,681 in OTPS costs charged to the Programs that were not allowable under SED's requirements.

Agency Administration Ineligible Expenses

The RCM states that costs must be reasonable, necessary, directly related to the special education programs, and sufficiently documented. It also specifies that certain expenses are not reimbursable, such as advertising costs for the purpose of recruiting students or soliciting fundraising monies or donations, and gifts of any kind.

We reviewed \$102,965 in agency administration costs and identified \$41,418 that was ineligible for reimbursement, including staff gifts/awards, fundraising expenses, legal services supported by insufficient documentation, and mileage for fundraising activities for the president/executive director. After applying the ratio value, we determined that \$2,604 in ineligible agency administration expenses were allocated to the Programs.

Direct Preschool Ineligible Expenses

The RCM states that costs must be reasonable, necessary, directly related to the special education programs, and sufficiently documented. It also specifies that expenses related to food for staff are non-reimbursable. We reviewed \$20,058 in costs and identified \$77 that was ineligible for reimbursement because they were not in compliance with these RCM requirements.

Recommendations

To SED:

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

To Mary Cariola:

3. Ensure that 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

The objective of our audit was to determine whether the costs reported by Mary Cariola on its CFR were properly calculated, adequately documented, and allowable under SED guidelines, including the RCM and the CFR Manual. The audit covered expenses reported on Mary Cariola's 2015 and 2016 CFRs for the fiscal year ended June 30, 2016. Mary Cariola submits its CFR on a calendar-year basis (January 1 through December 31).

To accomplish our objective and assess internal controls related to our objective, we reviewed the RCM, CFR Manual, and related appendices that applied to the years we examined. We evaluated Mary Cariola's internal controls as they related to costs it reported on the CFRs. We reviewed Mary Cariola's CFRs for the two calendar years ended December 31, 2016 with a focus on costs for the fiscal year ended June 30, 2016, as well as relevant financial records for the audit period. We reviewed Mary Cariola's policies to obtain an understanding of its financial practices for reporting costs on the CFR. For some costs, a judgmental sample of costs selected based upon high risk (e.g., food, mileage, advertising, gifts, and employee salary costs) and claimed by Mary Cariola for reimbursement were assessed to determine whether they were properly calculated, adequately documented, and allowable. We also conducted a random sample of employee timecards. Based on our sample design, we cannot project our results to the population as a whole. For other expenses (e.g., fundraising and legal fees) we disallowed costs identified in those categories.

Statutory Requirements

Authority

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.

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. 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 Mary Cariola 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. Mary Cariola officials generally agreed with our disallowances regarding personal service costs. However, they disagreed with disallowances regarding employee gift cards, indicating the gift cards were a benefit and not a gift. Our response to Mary Cariola's comments are included in the report's State Comptroller Comment.

Within 180 days after 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.

Exhibit

**Mary Cariola Children's Center
Schedule of Submitted and Disallowed Program Costs
For the Fiscal Year Ended June 30, 2016**

Program Costs	Amount per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services	\$2,331,028	\$10,063	\$2,320,965	A,B,H,K,M,N, P,Q,S
Other Than Personal Services	312,926	2,681	310,245	A-G,I,J,L,O, R,S,T
Total Program Costs	\$2,643,954	\$12,744	\$2,631,210	

Notes to Exhibit

The following Notes refer to specific sections of the RCM and CFR Manual 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 Mary Cariola officials during the course of the audit.

- A. RCM Section I.9 – Agency administration is defined as those expenses that are not directly related to a specific program but are attributable to the overall operation of the agency. These include: costs for the overall direction of the organization; costs for general record keeping, budget, and fiscal management; costs for public relations (non-fundraising); and costs for parent agency expenditures.
- B. RCM Section II – Costs are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and sufficiently documented.
- C. RCM Section II.3 – Outreach activities, such as publications and other public relations endeavors that describe the services offered by approved private schools enabling them to better contribute to community educational objectives, are reimbursable. The intended outcome of these publications and public relations endeavors should be that of providing information and not for the purpose of recruiting students into programs or soliciting fundraising monies or donations. New York State places students without regard to advertising or public relations activities.
- D. RCM Section II.13.A.10 – A merit award (or bonus compensation) shall mean a non-recurring and non-accumulating lump sum payment in excess of regularly scheduled salary that is not directly related to hours worked. A merit award may be reimbursed if it is based on merit as measured and supported by employee performance evaluations.
- E. RCM Section II.13.A.10.(a) – Merit awards are restricted to direct care titles/employees.
- F. RCM Section II.20.B – All personal expenses, such as personal travel expenses, laundry charges, beverage charges, gift certificates to staff and vendors, flowers or parties for staff, holiday parties, repairs on a personal vehicle, rental expenses for personal apartments, etc., are not reimbursable.
- G. RCM Section II.22.C – Costs of food provided to any staff including lunchroom monitors are not reimbursable.
- H. RCM Section II.23 – Costs of organized fundraising to raise capital or to obtain contributions are not reimbursable.
- I. RCM Section II.24 – Gifts of any kind are not reimbursable.
- J. RCM Section II.30.C – Costs for food, beverages, entertainment, and other related costs for meetings, including board meetings, are not reimbursable.
- K. RCM Section II.59.D.3 – Employee use of privately owned vehicles for program business is reimbursable provided such use is documented and necessary.
- L. RCM Section III.1.A – Compensation costs must be based on approved, documented payrolls. Payroll must be supported by employee time records.
- M. RCM Section III.1.B – Actual hours of services 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 in this allocation. Acceptable documentation may include payroll records or time studies.

- N. RCM Section III.1.C.2 – All payments to contractors must be supported by itemized invoices that indicate the specific services actually provided; for each service, the date(s), number of hours provided, and the fee per hour; and the total amount charged.
- O. RCM Section III.1.M – Any expenditures that cannot be charged directly to a specific program must be allocated across all programs and or entities benefited by the expenditure.
- P. RCM Section III.1.M.2 – Entities operating programs must use allocation methods that are fair and reasonable. Such allocation methods must be documented and reviewed on an annual basis and adjusted as necessary.
- Q. RCM Section III.1.M.3 – Agency administration costs shall be allocated to all programs operated by the entity based on the ratio-value method of allocation.
- R. CFR Manual Section 8, p. 8.12 – Non-allowable costs are expenses that, by regulation or State agency policy, are not reimbursable. If any non-allowable costs have been included as an expense on the CFR, they must also be included on the line for adjustments/non-allowable costs on the respective CFR schedule (line 66 of Schedule CFR-1, line 8 of Schedule CFR-2, line 41 of Schedule CFR-3).
- S. CFR Manual Section 15, p. 15.1 – Upon calculating total agency administrative costs, agency administrative costs must be allocated to each applicable program. In order to ensure equity of distribution and to provide uniformity in allocation, the DMH and SED require the ratio-value method of allocation to be used on the core CFR schedules (CFR-1 through CFR-6). The ratio-value method uses operating costs as the basis for allocating agency administration costs.
- T. CFR Manual Appendix I, Section 42, p. 42.3 – Agency administration expenses must be allocated to programs operated by OASAS, OMH, OPWDD, and SED as well as shared programs and “Other Programs” (includes fundraising, special events, management services contracts provided to other entities, all programs funded by non-CFRS participating State agencies, etc.) based upon the ratio of agency administration costs to the service provider’s total operating costs.

Agency Comments - State Education Department



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

SENIOR DEPUTY COMMISSIONER
Office of Performance Improvement and Management Services
O: 518.473-4706
F: 518.474-5392

November 25, 2020

Mr. Brian Reilly
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State St. 11th Floor
Albany, NY 12236

Dear Mr. Reilly:

The following is the New York State Education Department's (SED) response to the draft audit report, 2020-S-25, Mary Cariola Children's Center, Inc. (Mary Cariola) - 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 Mary Cariola's CFRs and to Mary Cariola'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 Mary Cariola 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 Mary Cariola's 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 Mary Cariola 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,



Sharon Cates-Williams

cc: Phyllis Morris
Christopher Suriano
Suzanne Bolling
Brian Zawistowski
James Kampf
Jerry Nestleroad

Agency Comments - Mary Cariola Children's Center, Inc.



November 23, 2020

Mr. Brian Reilly
Audit Director
Office of the New York State Comptroller
Division of Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

**RE: State Education Department
Compliance with the Reimbursable Cost Manual
Mary Cariola Center
Draft Report 2020-S-25**

Dear Mr. Reilly:

We have received and reviewed the Draft Audit Report 2020-S-25 concerning pre-school special education service expenses reported on Mary Cariola Center's 2015 and 2016 CFRs for the fiscal year ended June 30, 2016. We provide the following comments to the report.

- I. **Key Audit Recommendations to Mary Cariola** – "Ensure the costs reported on the annual CFRs fully comply with SED requirements, and communicate with SED to obtain clarification as needed."

Response

Mary Cariola agrees with the key recommendations and has worked to establish good communication with SED. Mary Cariola takes seriously our responsibility to be good fiscal stewards of New York State's investment in our region's pre-school students with multiple disabilities, and works hard to ensure each student achieves growth in the areas noted on their individual education program (IEP).

- II. **Personnel Service Costs Section of the Report**

"The RCM states that payroll compensation costs must be based on approved and documented payrolls that must be supported by employee time records. We identified that Mary Cariola charged compensation for six employees that was not fully supported by employee time records to the Programs. The unsupported charges resulted in an overstatement of \$9,025 in compensation costs (\$7,123 in salary and \$1,902 in fringe benefits) charged to the Programs for these employees.

According to the RCM, a merit award or bonus compensation shall mean a non-recurring and non-accumulating lump sum payment in excess of regularly scheduled salary that is not directly related to hours worked. Merit awards are restricted to direct care titles/employees and certain non-direct care titles such as food service workers and housekeeping. We found that the President/Executive Director (a non-direct care title) was awarded a bonus for the

1000 Elmwood Avenue, Rochester NY 14620
(585) 271-0761
www.marycariola.org

years ended December 31, 2015 and 2016 of \$13,464 and \$15,000, respectively. The portion of the ineligible bonus payments charged to the Programs was \$1,038 (\$954 in salary and \$84 in mandated fringe benefits)."

Response

Employee Salary Costs- The overstatement of \$9,025 in compensation costs noted in the report were legitimate school age personnel costs; however, we reported these personnel costs in error on the CFR as pre-school costs.

Executive Bonus- The Mary Cariola Board of Directors determined a portion of the compensation for the Mary Cariola CEO would be variable and not included in base salary. The CEO met the performance goals outlined in her employment contract for 2015 and 2016 and was awarded the amount in her agreement. We understand the CFR Reimbursement Cost Manual does not consider these variable amounts of compensation to be eligible for reimbursement.

III. Other Than Personal Service Costs Section of the Report

Agency Administration Ineligible Expenses- The report identified \$28,121 in agency costs that were ineligible for reimbursement, and after applying the ratios determined \$2,604 was applicable to preschool.

Response-The majority of the amount identified as ineligible agency costs was attributable to the Mary Cariola Board of Directors and agency leadership's decision to provide a \$50 gift card to 650 employees in December 2016, as a benefit, in an attempt to demonstrate employee appreciation and begin to slow the thirty to forty percent turnover in staff that Mary Cariola was experiencing. Mary Cariola leadership had begun to engage the State Education Department for better financial support for Mary Cariola's school age and pre-school program in September 2016. The agency could not afford a more expensive, but "eligible" retention incentive at the time of this decision. This audit viewed the gift cards provided to employees as a "gift" and not an eligible employee benefit.

[Comment 1](#)

We appreciate the audit team's effort and professionalism.

Sincerely,



William J. Ansbro
Chief Financial Officer

cc: Brian Zawistowski, SED
Dorinda Burton, SED
Ann Marsh, OSC

1000 Elmwood Avenue, Rochester NY 14620
(585) 271-0761
www.marycariola.org

State Comptroller's Comment

- 1. Per RCM Section II.24, gifts of any kind are not reimbursable.

Contributors to Report

Executive Team

Tina Kim - *Deputy Comptroller*

Ken Shulman - *Assistant Comptroller*

Audit Team

Brian Reilly, CFE, CGFM - *Audit Director*

Ed Durocher, CIA - *Audit Manager*

Theresa Podagrosi, CGAP - *Audit Manager*

Ann Marsh, CPA - *Audit Supervisor*

Marisa Sutliff - *Examiner-in-Charge*

Kathy Gleason - *Senior Examiner*

Jessica Prue - *Staff Examiner*

Contact Information

(518) 474-3271

StateGovernmentAccountability@osc.ny.gov

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



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