



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Compliance With the Reimbursable Cost Manual

**State Education Department
Westchester Community Opportunity
Program, Inc.**



Report 2016-S-33

December 2016

Executive Summary

Purpose

To determine whether the costs reported by Westchester Community Opportunity Program, Inc. (WestCOP) 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 the year ended June 30, 2013.

Background

WestCOP is an SED-approved, not-for-profit special education provider located in Westchester County, New York. WestCOP provides preschool special education services to children with disabilities who are between three and five years of age. WestCOP is reimbursed for preschool special education services through rates set by SED. The reimbursement rates are based on financial information, including costs, that WestCOP reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with RCM requirements. For the year ended June 30, 2013, WestCOP reported about \$2.1 million in reimbursable costs on its CFR for the rate-based preschool special education programs (Programs) it operated.

Key Findings

For the year ended June 30, 2013, we identified \$87,017 in ineligible costs that WestCOP reported on its CFR for the Programs. The ineligible costs included:

- \$74,714 in other than personal service costs, which consisted of \$44,262 in lease expenses that were not properly allocated, \$22,766 in non-Program-related expenses, \$5,989 in inadequately documented expenses, \$1,348 in non-reimbursable interest expense, and \$349 in other ineligible expenses; and
- \$12,303 in personal service costs, which consisted of \$10,525 for staff costs in excess of approved staffing ratios, \$1,613 in undocumented staff time, and \$165 in bonus compensation.

We also determined WestCOP did not disclose related-party transactions with three vendors on its CFR, as required.

Key Recommendations

To SED:

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

To WestCOP:

- Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.
- Ensure related-party transactions are properly disclosed on the CFR.

Other Related Audits/Reports of Interest

[The Alcott School: Compliance With the Reimbursable Cost Manual \(2015-S-97\)](#)

[Early Education Center, Inc.: Compliance With the Reimbursable Cost Manual \(2015-S-96\)](#)

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

Division of State Government Accountability

December 29, 2016

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

Mr. John Savage
Chief Executive Officer
Westchester Community Opportunity Program, Inc.
2 Westchester Plaza
Elmsford, NY 10523

Dear Ms. Elia and Mr. Savage:

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 Westchester Community Opportunity Program, 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, 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*

Table of Contents

Background	5
Audit Findings and Recommendations	6
Other Than Personal Service Costs	6
Personal Service Costs	7
Other Matters	8
Recommendations	8
Audit Scope and Methodology	9
Authority	10
Reporting Requirements	10
Contributors to This Report	11
Exhibit	12
Notes to Exhibit	13
Agency Comments - State Education Department	14
Agency Comments - Westchester Community Opportunity Program, Inc.	15
State Comptroller's Comments	18

State Government Accountability Contact Information:

Audit Director: Andrea Inman

Phone: (518) 474-3271

Email: 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

Background

Westchester Community Opportunity Program, Inc. (WestCOP) is a not-for-profit organization that provides various educational services in Westchester County, New York. WestCOP is managed by a Chief Executive Officer (CEO), who is overseen by a board of directors. WestCOP is authorized by the State Education Department (SED) to provide, among other programs, preschool special education services to children with disabilities who are between three and five years of age. During the audit period, WestCOP provided the following rate-based preschool special education programs to 112 students: Preschool Special Class – over 2.5 hours per day; Preschool Special Class – 2.5 hours per day; Preschool Integrated Special Class – 2.5 hours per day; and Preschool Special Education Itinerant Teacher services (collectively referred to as the Programs).

The counties that use WestCOP's preschool special education services pay tuition to WestCOP using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by WestCOP on the annual Consolidated Fiscal Reports (CFRs) 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 year ended June 30, 2013, WestCOP reported about \$2.1 million in reimbursable costs for the Programs on the CFR.

In addition to the aforementioned Programs, WestCOP operated several other types of early childhood programs including, but not limited to, Head Start, Preschool Evaluations, and Preschool Related Services 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 program, and adequately documented. For the year ended June 30, 2013, we identified \$87,017 in costs that WestCOP reported on its CFR that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$74,714 in other than personal service (OTPS) costs and \$12,303 in personal service costs. We also determined WestCOP did not disclose related-party transactions with three vendors on its CFR, as required. In certain instances, some of the ineligible costs were previously identified by SED, which we noted in the report.

Other Than Personal Service Costs

For the year ended June 30, 2013, we identified \$74,714 in OTPS costs that were not eligible for reimbursement. The ineligible costs included \$44,262 in lease expenses that were not properly allocated, \$22,766 for non-Program-related expenses, \$5,989 in inadequately documented expenses, \$1,348 in non-reimbursable interest expense related to a late CFR submission, and \$349 in other ineligible expenses.

Allocation of Lease Costs

According to the RCM, when more than one program is operated in a rented facility, the rental costs of the facility are reimbursable if the share of the rental expenses that are allocated to each program is based on documented and reasonable criteria, such as square footage utilization. WestCOP reported lease expenses that were not properly allocated to the Programs. WestCOP did not provide a basis for its allocation of the lease costs. We recalculated the lease costs using square footage information provided by WestCOP, and determined WestCOP charged excess lease costs of \$44,262 to the Programs on its CFR.

Non-Program-Related Costs

The RCM states costs will be considered for reimbursement if they are directly related to the special education programs. We identified \$22,766 in costs that were ineligible for reimbursement because they were not related to the Programs. The ineligible costs consisted of \$11,603 for vehicle expenses, \$7,037 for contract expenses, \$2,602 for audit expenses, and \$1,524 for transportation expenses. We determined these costs were related to the Head Start program, weatherization program, or other programs operated by WestCOP. SED previously identified the contract expenses as ineligible for reimbursement.

Inadequately Documented Costs

According to the RCM, costs are considered for reimbursement if they are adequately documented. We identified \$5,989 in costs that were ineligible for reimbursement because they had insufficient or missing documentation. The ineligible costs included:

- \$2,328 for repairs and maintenance services;
- \$1,100 for legal services;
- \$1,085 for audit services;
- \$725 for equipment depreciation;
- \$614 for computer software; and
- \$137 in other costs, including \$96 for food, \$26 for social events, and \$15 for gifts.

Working Capital Interest

The CFR Manual requires providers to submit CFRs no later than 120 days after the end of the reporting period, or no later than 150 days after the end of the reporting period with a pre-approved 30-day extension request. For July–June filers, such as WestCOP, the extended due date is December 1. According to the RCM, interest expense on working capital loans is not reimbursable if the CFR is not submitted within 90 days after the due date. WestCOP submitted its CFR on January 14, 2015, more than one year after the extended due date. Consequently, we determined \$1,348 in working capital interest was ineligible for reimbursement.

Other Ineligible Costs

According to the RCM, costs for food, gifts, entertainment, and personal expenses are not reimbursable. We identified \$349 in costs that were ineligible for reimbursement because they were not in compliance with these RCM requirements. The ineligible costs consisted of \$250 for food for staff, \$52 for laundry, \$30 for gifts, and \$17 for social events. SED previously identified a portion of these costs as ineligible for reimbursement.

Personal Service Costs

For the year ended June 30, 2013, we identified \$12,303 in personal service costs that were not eligible for reimbursement. The ineligible costs included \$10,525 for staff costs in excess of approved staffing ratios, \$1,613 in undocumented staff time, and \$165 in bonus compensation.

Staff Costs in Excess of Approved Ratios

Costs for direct care personnel in excess of the approved student-to-staff ratios are not reimbursable according to the RCM. We found WestCOP reported \$10,525 for personal service costs in excess of approved ratios on its CFR for the year ended June 30, 2013. The excess costs consisted of \$5,447 for teachers (\$4,485 in salary and \$962 in associated fringe benefits) and \$5,078 for teacher assistants and aides (\$4,121 in salary and \$957 in associated fringe benefits). SED previously identified a portion of these costs as ineligible for reimbursement.

Undocumented Staff Time

According to the RCM, compensation costs must be based on approved, documented payrolls. Payrolls must be supported by employee time records prepared during, not after, the time period

for which the employee was paid. However, we identified \$1,613 in unsupported personal service costs (\$1,299 in salary and \$314 in associated fringe benefits) reported by WestCOP on its CFR. Specifically, we determined the time records for six employees were insufficient and did not account for enough hours to support the costs reported on the CFR.

Bonuses

The RCM states bonus compensation may be reimbursed if it is based on merit as measured and supported by employee performance evaluations. Bonus compensation is also restricted to direct care employees only. We found WestCOP reported \$165 in non-reimbursable bonus payments (\$135 in salary and \$30 in associated fringe benefits) on its CFR. We determined, however, these payments (made to five employees) were not based on merit or supported by performance evaluations. In addition, the five employees who received the payments did not work in direct care positions, as required.

Other Matters

Undisclosed Related-Party Transactions

According to the CFR manual, related-party transactions must be reported on the CFR-5 schedule. However, we determined WestCOP did not disclose certain related-party transactions on its CFR, as required. Specifically, we found WestCOP did not disclose the following on the CFR-5 schedule:

- Costs for legal services provided by The Bozeman Law Firm, PLLC (Bozeman). WestCOP's CEO was a former partner at Bozeman and was also an independent contractor for Bozeman during the year ended June 30, 2013;
- Costs for repair and maintenance services provided by Oddz N Endz, a company owned by WestCOP during the year ended June 30, 2013; and
- Costs for transportation services provided by Outer Limits Transportation, another company owned by WestCOP during the year ended June 30, 2013.

We determined the expenses associated with these related-party transactions were ineligible for reimbursement because they were not related to the Programs or did not have sufficient documentation. These ineligible costs are included in the prior sections of this report.

Recommendations

To SED:

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

To WestCOP:

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.
4. Ensure related-party transactions are properly disclosed on the CFR.

Audit Scope and Methodology

We audited the costs that WestCOP reported on its CFR for the year ended June 30, 2013. 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 WestCOP's internal controls as they related to costs it reported on the CFR. We also interviewed personnel to obtain an understanding of the practices for reporting costs on the CFR. We reviewed WestCOP's CFR for the fiscal year ended June 30, 2013 and relevant financial records for the audit period. We obtained accounting records and supporting information to assess whether certain costs claimed by WestCOP on the CFR, such as costs that are considered high risk and reimbursable in limited circumstances, 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.

Authority

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.

Reporting Requirements

We provided a draft copy of this report to SED and WestCOP 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 response, SED officials agreed with the audit recommendations and indicated the actions they will take to address them. Additionally, WestCOP officials agreed with the audit findings and recommended disallowances with the exception of \$52 in laundry expenses. Our rejoinders to certain WestCOP comments are included in the report's State Comptroller's Comments.

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.

Contributors to This Report

Andrea Inman, Audit Director
Ed Durocher, CIA, Audit Manager
Brian Krawiecki, Audit Supervisor
Thomas Sunkel, CPA, Examiner-in-Charge
Kathy Gleason, Senior Examiner
Amy Tedesco, Senior Examiner

Division of State Government Accountability

Andrew A. SanFilippo, Executive Deputy Comptroller
518-474-4593, asanfilippo@osc.state.ny.us

Tina Kim, Deputy Comptroller
518-473-3596, tkim@osc.state.ny.us

Brian Mason, Assistant Comptroller
518-473-0334, bmason@osc.state.ny.us

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

**Westchester Community Opportunity Program, Inc.
Schedule of Submitted and Disallowed Program Costs
for the Year Ended June 30, 2013**

Program Costs	Amount Per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services	\$1,345,065	\$12,303	\$1,332,762	A, C, I
Other Than Personal Services	714,294	74,714	639,580	B, D-H
Total Program Costs	\$2,059,359	\$87,017	\$1,972,342	

Notes to Exhibit

The following Notes refer to specific sections of the RCM 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 WestCOP officials during the course of the audit.

- A. Section I.6: Direct care personnel in excess of the approved student-to-staff ratios are non-reimbursable.
- B. Section II: Costs are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and adequately documented.
- C. Section II.13.A.10: Bonus compensation may be reimbursed if it is based on merit as measured and supported by employee performance evaluations. Bonus compensation is also restricted to direct care employees only.
- D. Section II.20: Costs incurred for entertainment of officers or employees, or for activities not related to the program, are non-reimbursable. All personal expenses, such as laundry charges, gift certificates to staff, flowers or parties for staff, holiday parties, etc., are non-reimbursable.
- E. Section II.22.C: Costs of food provided to staff are non-reimbursable.
- F. Section II.24: Gifts are non-reimbursable.
- G. Section II.28.D.3: Interest working capital will be reimbursed on a prorated basis if submitted within 90 days of the respective CFR due date. Otherwise, it is non-reimbursable.
- H. Section II.41.B.4: Rental costs of facilities are reimbursable if the share of rental expense allocated to the programs is based on documented and reasonable criteria, such as square footage utilization, when more than one program is operated in a rented facility.
- I. Section III.1.A: Compensation costs must be based on approved, documented payrolls. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid.

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

December 16, 2016

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, 2016-S-33, Compliance with the Reimbursable Cost Manual: Westchester Community Opportunity Program, Inc. (WestCOP).

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

Sharon Cates-Williams

c: Christopher Suriano
Suzanne Bolling

Agency Comments - Westchester Community Opportunity Program, Inc.



December 8, 2016

By Overnight Courier
 Andrea Inman
 Office of the State Comptroller
 110 State Street, 11th Floor
 Albany, NY 12236

Re: Audit 2016 –S-33

Dear Ms. Inman,

We are in receipt of your draft report of audit 2016-S-33, dated November, 2016. Please accept this letter as our response with respect to the Office of the State Comptroller (“OSC”) audit of Westchester Community Opportunity Program, Inc. (“WestCOP”).

Allocation of Leased Expenses

We do not challenge the auditors’ assessment regarding the allocation of the rental expense. In hindsight an old methodology was used to allocate the rental expense and as WestCOP grew and expanded that basis was never updated. WestCOP will ensure full compliance with the RCM on allocation of rental expenses on all future CFRs.

Non-Program-Related Expenses

We do not challenge the auditors’ assessment for the following: \$11,603 (vehicle expenses); \$7,037 (contract expenses); \$2,602 (weatherization program) and \$1,524 (transportation expenses). While these expenses were all programmatic expenses related WestCOP, there were mistakenly included on either CFR 1 or CFR 3 and should have been reported on CFR -2.

While WestCOP did maintain logs on 6 of its vehicles, some of the logs didn’t contain all the necessary and relevant information in accordance with the reimbursable cost manual (“RCM”). Going forward vehicle logs will be revised so that all required information is listed in one centralized location and contained for each vehicle.

The contracted expenses, weatherization program related costs and Head Start transportation expenses were miscoded. Going forward proper care and due diligence will be made to ensure that proper program related expenses are all categorized to the appropriate cost center.

* Comment 1

*See State Comptroller’s Comments, Page 18.



Westchester Community Opportunity Program, Inc.

2 Westchester Plaza, Elmsford, NY 10523
 Phone: 914.592.5600 Fax: 914.592.0021
 www.westcop.org

Inadequately Documented Expenses

We do not challenge the auditors' assessment for the following program related expenses \$2,328 (vehicle repairs and maintenance); \$1,100 (legal expenses); \$1,085 (audit services); \$1,476 (other costs)

Going forward WestCOP will employ data saving mechanism techniques to ensure that invoices are retained for a disclosed period of time. In addition, WestCOP will require contractors to provide the necessary itemized detailed invoices, indicating hours worked, detail of service provided, fee per hour and the total amount charged in accordance with the RCM.

Late CFR Submission

We do not challenge the auditors' assessment which requires CFRs to be submitted no later than 120 days after the end of the fiscal year. As a result of the late submission to SED, WestCOP acknowledges that it will forfeit its working capital interest of \$1,348. In the future WestCOP will be more attentive to the timing regulations and will implement measures to make sure that future CFRs are filed on a timely basis

Other Ineligible Expenses

WestCOP does not challenge the following disallowances identified in the draft audit report \$250 (food); \$30 (gifts) and \$17 (social events).

WestCOP challenges the \$52 (laundry) as the cost was a required and necessary expense incurred for the cleaning of the sheets used in protecting the children's cots. We request that this disallowance be removed from the final report.

Undisclosed Related Parties

We do not challenge the auditor's assertion that the nature of the relationship between the then Chief Operating Officer of WestCOP and the Bozeman Law Firm for the year ending June 30, 2013, should have been disclosed in the CFR.

In addition, Oddz N' Endz and Outer Limits are affiliated companies of WestCOP and these related party disclosures should have been noted.

* Comment 2



Westchester Community Opportunity Program, Inc.

2 Westchester Plaza, Elmsford, NY 10523
Phone: 914.592.5600 Fax: 914.592.0021
www.westcop.org

WestCOP has strengthened its internal control to ensure full compliance with the CFR disclosure requirements and going forward WestCOP will ensure all required disclosures be made.

WestCOP will continue to strive with increasing efforts to meet the standards of the RCM. For the items described as lacking documentation or incorrectly allocated, we will work diligently to avoid these errors and will increase our efforts in delivering a more complete and timely filed CFR.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'John S. Savage', is written over the typed name and title.

John S. Savage
CEO

cc: Roland L. Grant, Sr.
Ellen Farrar
Tarek Abdelaziz

State Comptroller's Comments

1. We are pleased WestCOP is taking steps to improve controls over its vehicle logs. We note that the \$11,603 in vehicle expenses was deemed ineligible for reimbursement because the costs were not related to the Programs.
2. As mentioned on page 7 of this report (see "Other Ineligible Costs"), SED previously identified a portion of these costs as ineligible for reimbursement. The \$52 in laundry costs was included in the SED disallowance. We reviewed the documentation supporting this expense and determined it did not demonstrate that the expense was for the Programs as WestCOP asserts. Absent sufficient documentation, we maintain that SED's disallowance of this expense was appropriate.