

THOMAS P. DINAPOLI
COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 2, 2016

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

Mr. John McHugh
Executive Director
The ARC of Ulster-Greene
471 Albany Avenue
Kingston, NY 12401

Re: Compliance With the Reimbursable
Cost Manual
Report 2015-S-60

Dear Ms. Elia and Mr. McHugh:

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 The ARC of Ulster-Green (Ulster-Greene) 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

Ulster-Greene, a not-for-profit organization located in Kingston, New York, is an SED-approved provider of preschool special education services. Ulster-Greene offers a range of services and programs to children with disabilities between the ages of three and five years. For the year ended December 31, 2014, Ulster-Greene offered two SED rate-based preschool special education programs: a half-day and a full-day Preschool Integrated Special Class (collectively referred to as the Programs). During 2014, Ulster-Greene provided these special education services to about 130 children with learning disabilities from ten school districts located in Ulster, Green, and Delaware counties.

The counties that use Ulster-Greene's preschool special education services pay tuition to Ulster-Greene using reimbursement rates set by SED. The State 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 Ulster-Greene 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 must meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the year ended December 31, 2014, Ulster-Greene reported about \$2.6 million in reimbursable costs on its CFR for the Programs.

Results of Audit

According to the SED guidelines, costs reported on the CFR should be reasonable, necessary, directly related to the special education program, and properly documented. For the year ended December 31, 2014, we identified \$995 in other than personal service (OTPS) costs charged to the Programs that did not comply with SED's requirements for reimbursement.

Other Than Personal Service Costs

We reviewed a judgmental sample of Ulster-Greene's OTPS costs reported on its 2014 CFR and identified \$995 in non-reimbursable costs for coffee for staff. According to Ulster-Greene officials, they pay the costs for coffee upfront and staff reimburse the cost of the coffee at the machines at the time of purchase. The money from the machines is used by Ulster-Greene officials to offset the expense. However, the money collected from the machines was recorded on the CFR in a different program. Consequently, absent the revenue offset, the expenses for the Programs were overstated.

Recommendations

To SED:

1. Review the disallowances identified by our audit and make the necessary adjustments to the costs reported on Ulster-Greene's CFRs and to Ulster-Greene's tuition reimbursement rates, as appropriate.
2. Remind Ulster-Greene officials of the pertinent SED guidelines that relate to the deficiencies we identified.

To Ulster-Greene:

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

We audited costs that Ulster-Greene reported on its CFR for the year ended December 31, 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 as well as the CFR Manual and related appendices. We became familiar with Ulster-Greene's internal controls as they related to costs Ulster-Greene reported on the CFR. We also interviewed Ulster-Greene personnel to obtain an understanding of the practices for reporting costs on the CFR. We reviewed Ulster-Greene's CFR and relevant financial records for the audit period and obtained accounting records and supporting information to review costs that were considered high risk and reimbursable in limited circumstances, such as food and gifts.

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 Ulster-Greene 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, SED and Ulster-Greene officials agreed with the 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 Dennis Buckley, Ed Durocher, Kamal Elsayed, and Anthony Calabrese.

We would like to thank the management and staff of SED and Ulster-Greene for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

Andrea Inman
Audit Director

cc: Suzanne Bolling, Director of Special Education Fiscal Services, SED
Thalia Melendez, Director - Office of Audit Services, SED

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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August 9, 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, 2015-S-60, Compliance with the Reimbursable Cost Manual: The ARC of Ulster-Green (Ulster-Greene).

Recommendation 1: Review the disallowances identified by our audit and make the necessary adjustments to the costs reported on Ulster-Greene's CFRs and to Ulster-Greene's tuition reimbursement rates, as appropriate.

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 Ulster-Greene 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 Ulster-Greene 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: Monica Short
Suzanne Bolling

Agency Comments - The Arc of Ulster-Greene



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March 9, 2016

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

Dear Ms. Inman,

The Arc of Ulster-Greene has received and reviewed the draft audit report # 2015-S-60-of our Preschool Special Education program based on the Consolidated Fiscal Report for the calendar year ended 12/31/2014. There was one finding outlined in the audit report. Below is our response to the finding:

- With regard to the finding of \$995 of non-reimbursable cost for coffee for staff, we agree that the expense to the preschool programs was overstated. Revenue was collected to offset the expense, but was recorded in a different program. We have put a system in place to correctly recognize the revenue to correspond with the related expense by program.

We appreciate the courteous and professional manner in which the auditors worked with us during this audit. Please advise if any additional information is needed.

Sincerely,

John McHugh
Executive Director

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