New York State Comptroller
THOMAS P. DiNAPOLI

State Fiscal Year 2022–2023 Report on Preschool Special Education

August 2024

Message from the Comptroller

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Special education programs fulfill a great need, providing a quality learning experience that accommodates the individual differences and needs of young people with disabilities. Many private special education providers use public funds conscientiously and in accordance with State laws, rules, and regulations. However, some abuse the system, misuse State and local government funding, squander taxpayer dollars, and deprive children with disabilities of the resources and opportunities they need and deserve.

Over the last decade, my office has uncovered a troubling pattern of mismanagement, waste, and fraud by numerous private providers of preschool special education services. Our audits have found inaccurate and inappropriate self-reported program costs and ineffective program monitoring and oversight. As a result, children needing special education services have been shortchanged by private providers who have misused public funds entrusted to them.

The State Legislature responded to these reports of abuse with legislation that requires my office to audit the expenses submitted for reimbursement by every provider of preschool special education services to the State Education Department (SED), and to present our findings annually to the Governor, the Legislature, and the public. This is the ninth such annual report.

To improve oversight and management of this essential public program, we've coordinated our audit efforts with SED, the New York City Department of Education, the New York State Association of Counties, and the individual counties themselves. We also provide training to county officials and private providers to explain the importance of this initiative and to discuss the steps in the OSC audit process, the findings of our audits, and the need for strong internal controls.

My office will continue to emphasize the importance of critical internal controls and responsible external oversight as we carry out our responsibilities to monitor the costs for preschool special education services.

Thomas P. DiNapoli
State Comptroller

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Executive Summary

The State Education Department (SED) oversees special education programs that provide services to students with disabilities between the ages of three and 21 in New York State. While most school-age students with disabilities receive their educational services from public school districts, preschool special education services are predominantly provided by private providers. SED reports that, for the 2020–21 school year (the most current information available from SED), approximately 73,300 preschool students with disabilities received services throughout the State from 346 approved providers at an annual cost of over $1.3 billion to the State and its local governments.

Private special education providers can be either for-profit or not-for-profit organizations. These providers must be approved by SED to deliver special education services to New York children. SED annually develops rates for preschool special education programs operated by approved providers based on actual costs reported to SED. These rates are used to reimburse providers for eligible costs determined by the reimbursement guidelines issued by SED and the cost reporting and claiming instructions defined in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual).

In 2004, the Office of the State Comptroller (OSC) began conducting audits of expenses submitted to SED by special education providers, focusing on their compliance with SED cost-reporting guidance and the accuracy and appropriateness of their reported program costs. These audits uncovered some concerning issues with payments to providers, including instances of apparent fraud. In June 2012, Comptroller DiNapoli announced a special education audit initiative, which involved a broader, sector-wide approach as well as multiple simultaneous individual audits, and proposed legislation to improve the oversight of preschool special education providers. As a result, Chapter 545 of the Laws of 2013 was signed into law on December 18, 2013 and became effective immediately, creating Section 4410-c of the Education Law. The law required the State Comptroller to audit the expenses reported to SED by every program provider of special education services for preschool children with disabilities, subject to the funding made available by the Legislature for such purpose. Section 200.18 of the Regulations of the Education Commissioner was amended in 2016 to make clear that SED reviews OSC's final audit reports in establishing tuition rates for preschool special education programs.

Since 2004, OSC has conducted 180 audits of expenses submitted to SED by special education providers. These audits have cumulatively identified approximately $113 million in recommended disallowances. Additionally, since the beginning of the preschool special education audit initiative, there have been 13 arrests and 11 guilty pleas, as well as $18,650,587 in court-ordered recoveries.

OSC Initiative Activities

As required by Section 4410-c of the Education Law, OSC developed a risk assessment process to prioritize the preschool special education audits to be undertaken in accordance with the initiative. OSC established an internal work group that identified a number of risk factors and applied them to multiple data sources.

Collaboration with Other State Agencies

OSC's established protocols require that suspected findings of fraud, abuse, or potential criminal misconduct be referred to OSC's Division of Investigations (DOI) as well as external agencies with appropriate legal jurisdiction. Of the two preschool special education audits referred to DOI in 2022, one remains an active investigation. No new preschool special education audits were referred to DOI for consideration in 2023.

Audit Findings

In SFY 2022–23 (April 1, 2022 through March 31, 2023), OSC completed 10 audits of preschool special education providers' expenses submitted to SED (see Appendices A and B). These audits cumulatively identified $7.7 million in recommended disallowances, or more than 13 percent of the total claimed expenses of $57.7 million for the audit period.

Disallowed expenses range from costs claimed as direct care services for children to administrative expenses and services. Over the course of this initiative, OSC's audits of expenses submitted to SED by certain special education providers identified fraud, widespread mismanagement, and blatant misuse of public funding intended for the education of children with disabilities.

Results of the years-long preschool special education initiative continue to indicate steady improvement in these areas, but findings in certain categories continue to be of concern, particularly errors related to the allocation and/or inappropriate claiming of personal service and other than personal service (OTPS) expenses. The audits completed in SFY 2022–23 indicate ongoing inaccuracies in cost reporting by special education providers. The dollar amount of disallowed expenses increased from $3.8 million for 10 audits completed in SFY 2021–22 to $7.7 million for the same number of audits completed in SFY 2022–23. The share of disallowed costs as a percentage of total dollars claimed is much higher at 13.38 percent in SFY 2022–23 compared to 4.05 percent in SFY 2021–22.

The SFY 2022–23 audit findings are summarized as follows:

Expenses Claimed for Costs from Other Programs – Private special education providers can offer more than preschool special educational services to their students. For instance, they may also offer evaluation services, day care services, and early intervention services. However, payments for services under these types of programs are based on fixed fees, as opposed to reported costs.

Providers are required to report all revenues, expenses (including personal service and OTPS), staffing, enrollment, and agency administration costs on their annual Consolidated Fiscal Report (CFR). Some program costs may relate to multiple programs and require providers to allocate these costs among the programs benefiting from the expense. All costs are self-reported within the CFR in the aggregate and by program. Allocation of costs among the programs can be complicated when shared costs are allocated to programs reimbursed by different State agencies. The Consolidated Fiscal Reporting and Claiming Manual (CFR Manual) and the Reimbursable Cost Manual (RCM) recommend methods by which various types of costs may be allocated and reported on the CFR.

OSC audits completed and issued in SFY 2022–23 identified over $526,000 in expenses (or about 7 percent of the total disallowances) from other programs that were charged to the preschool programs. The costs claimed from other programs include both payroll-related expenses and OTPS expenses as follows:

- **Allocation of Payroll Expenses –** The RCM requires salaries of employees who perform tasks for more than one program to be allocated among all programs for which they work. Furthermore, providers must maintain appropriate documentation reflecting the allocation methodology used to distribute hours worked. Three of 10 audits (30 percent) identified a total of more than $266,000 in payroll costs from other programs that were charged to the preschool programs. This represents a significant reduction from SFY 2021–22, when six of 10 audits (60 percent) identified more than $611,000 in improperly allocated payroll expenses.
- **OTPS Expenses –** SED guidelines require that any expenditure that cannot be charged directly to a specific program be allocated across all programs and/or entities that benefit from the expenditure (e.g., general maintenance and overhead expenses). The RCM requires providers to maintain documentation of the methodologies used to allocate costs to the various programs they operate. Six of 10 audits identified problems related to the allocation of OTPS costs and/or the inappropriate claiming of expenses from other programs. The dollar amount of these findings was over $260,000, or more than twice the dollar amount from SFY 2021–22, when seven of 10 audits identified over $130,000 in inappropriate expenses from other programs.

Personal Service-Related Findings – In addition to the allocation of payroll expenses from other programs previously noted, OSC audits that were completed and issued in SFY 2022–23 identified almost $5.6 million in unsupported or ineligible payroll-related expenses. Examples include:

- **Unsupported or Ineligible Payroll Expenses –** SED requires providers to base employee compensation on approved and documented payrolls, which must be supported by time and attendance records for all employees. Also, Section 200.9 of the Regulations of the Commissioner of Education (Regulations) states that providers shall maintain adequate records to document direct and/or indirect service hours provided, as well as time spent on all other activities related to each student served. Nine of the 10 audits, with a total recommended disallowance of over $5.4 million, found issues with the maintenance of payroll records and other documentation required by the RCM. This disallowance was significantly higher than in SFY 2021–22, where all 10 audits identified over $762,000 in unsupported or ineligible payroll-related expenses.
- **Ineligible Bonuses –** SED requires that salary bonuses are only reimbursable for direct care titles, based on merit, and supported by performance evaluations to be eligible for reimbursement. One of the 10 audits found ineligible bonuses with a recommended disallowance of over $6,000, a reduction from SFY 2021–22, when three of 10 audits identified over $8,000 in ineligible bonuses.

Findings Related to OTPS Expenses – 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 properly documented. Expenses of a personal nature are not reimbursable. In addition to the above allocation of OTPS expenses from other programs, OSC audits completed and issued in SFY 2022–23 identified almost $1.6 million in unsupported, insufficiently documented, or ineligible OTPS-related expenses. Examples include:

- **Unapproved Locations/Sites –** The RCM requires providers to obtain prior written approval from SED for program expansions requiring additional staff, variations from staffing ratios, additional property/location-related costs, classroom equipment, etc. when the cost is expected to be reimbursed fully or partially through the tuition rate. Instructional and non-instructional space to be occupied by approved programs in which space is new, is substantially altered, or results in capitalized costs in excess of $100,000 will require written approval from SED prior to implementing. Two of 10 audits recommended disallowances of over $472,000 for unapproved site/location costs. There was no such related disallowance in SFY 2021–22.
    - One of 10 audits noted nearly $395,000 in unapproved additional space rental—at an existing approved location—and over $29,000 for rent and related expenses at three other unapproved locations.
    - One of 10 audits identified more than $47,000 in disallowed expenses for property-related costs (e.g., rent, utilities, and repairs) related to at least 10 other unapproved sites.
- **Unsupported, Insufficiently Documented, or Ineligible Costs –** All 10 audits found unsupported, insufficiently documented, or ineligible (not program-related) expenses of more than $645,000. This disallowance was significantly higher than in SFY 2021–22, when nine of 10 audits identified more than $392,000 in unsupported or ineligible expenses.
- **Consultant and Professional Services –** The RCM provides extensive guidance on the use of consultants and other professionals, the proper claiming of costs for their services, and related supporting documentation requirements. In addition, costs cannot be claimed for consultant services that could have been performed by a properly certified school officer or an employee who possesses the necessary technical skills. Seven of 10 audits recommended disallowances for consultant and professional services totaling more than $145,000—significantly less than the recommended disallowance of more than $1 million in seven of 10 audits in SFY 2021–22.

- **Unsupported and Insufficiently Documented Depreciation Expense –** The RCM states that costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. Expenditures that cannot be charged directly to a specific program must be allocated across all programs that benefit from the expenditure, using allocation methods that are fair, reasonable, and documented. The RCM also states that providers should retain all pertinent accounting, allocation, and enrollment/attendance records supporting reported data directly or indirectly related to the establishment of tuition rates for seven years following the end of each reporting year. Information relating to the acquisition of fixed assets, equipment, land or building improvements, and any related financing arrangements and grants must be retained as long as the facility is used by any education program the provider operates if this period exceeds seven years. Moreover, costs will not be reimbursable on field audit without appropriate written documentation. Four of 10 audits identified almost $46,000 in recommended disallowances for unsupported or insufficiently documented depreciation expense. One of the four audits also used square footage to allocate costs for two of its programs that were not properly calculated in accordance with the CFR manual. While the new allocation percentages did not result in a disallowance to the programs, they would result in different rates for each of the programs and are what the provider should have used when filing its CFR. A fifth audit included verified and reasonable program expenses, including depreciation, that were not reported on the appropriate CFR line. No disallowances were recommended in relation to this matter and auditors reminded the provider to ensure that such expenses are categorized on the appropriate CFR line based on the expenses that were actually incurred. This $46,000 disallowance was significantly less than the recommended disallowance of more than $153,000 in five of 10 audits in SFY 2021–22, although the former was for unsupported and insufficiently documented expenses while the latter included unsupported, insufficiently documented, overallocated, and ineligible depreciation expense.
- **Staff Food, Entertainment, and Gifts –** The RCM guidance states that costs incurred for food provided to staff, gifts, and entertainment are not reimbursable. In eight of the 10 audits, ineligible expenses of more than $22,000 occurred for staff food, entertainment, and gifts. This disallowance was similar to SFY 2021–22, when seven of 10 audits identified more than $21,000 in ineligible costs.

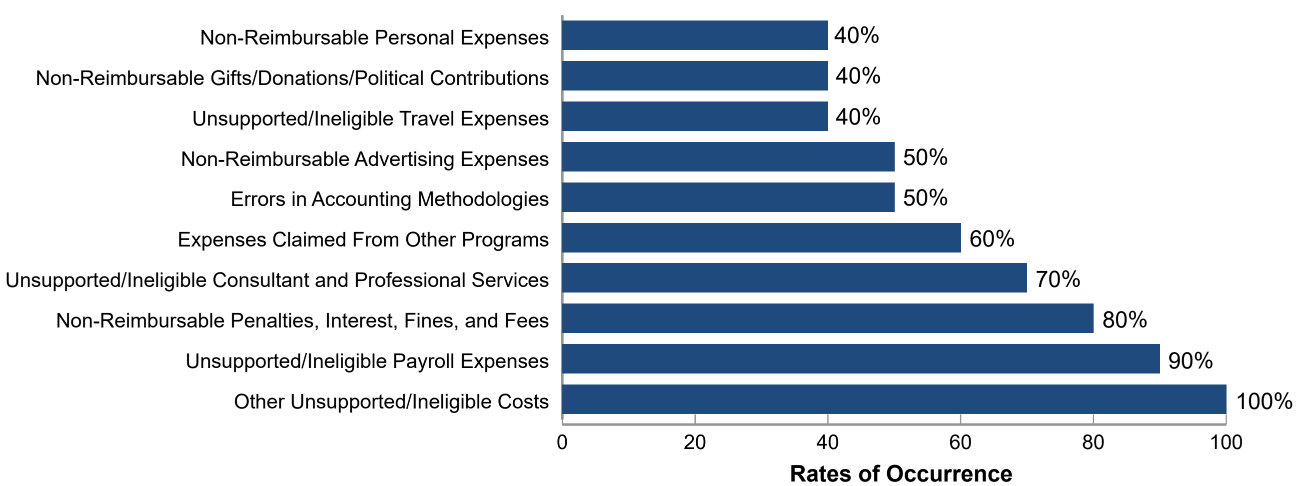
- **Penalties, Interest, Fines, and Fees –** The RCM expressly states that fines, penalties, fees, and certain forms of interest are not reimbursable. The RCM further states that costs resulting from violations of, or failure by, the entity to comply with federal, State and/or local laws and regulations, and punitive damages are not reimbursable. Additionally, interest on working capital loans will not be reimbursed if the entity files its CFR more than 90 days after the due date. Lastly, it also states fees incurred solely to enhance income from investments are not reimbursable. Eight of 10 audits noted more than $17,000 in recommended disallowances for non-reimbursable penalties, interest, fines, and fees. This is significantly higher than the approximately $4,000 in recommended disallowances in three of 10 audits in SFY 2021–22.
- **Unsupported and Insufficiently Documented Related-Party Transactions –** SED requires special education providers to disclose all less-than-arm's-length (LTAL) transactions in their CFRs and in the notes to their audited financial statements. A LTAL relationship exists when there are related parties, and one party can control or significantly influence the business decision of another party due to the nature of their personal relationships (e.g., spouses who conduct business with each other). Disclosure of such relationships is necessary to help ensure the propriety of costs for reimbursement purposes. The RCM states that costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the special education program, and sufficiently documented. One of 10 audits disallowed over $6,000 in unsupported or insufficiently documented LTAL transactions, including bank fees, insurance, interest expense, legal fees, and other expenses. A second audit identified a provider who failed to disclose a familial relationship between their President and Vice President, both of whom were compensated, on their CFR, as required. No disallowances were recommended in relation to this matter. Further, a third audit identified a provider that did not discuss with SED whether disclosure of the LTAL relationship between the provider's Investment Committee's Treasurer and a financial consultant was necessary. No disallowances were recommended in relation to this matter.
- **Personal Expenses –** Expenses of a personal nature, such as Internet service, personal cell phones, and personal car service—known as perquisites (or perks)—are not reimbursable. Four of 10 audits recommended personal expense disallowances of over $2,600. Although this is significantly lower than the SFY 2021–22 recommended disallowance of over $36,000 from four of 10 audits, both amounts represent 40 percent of audits with findings, or the second highest since 2014.

Personal Expenses (Rent, Legal, Leases, Tuition, Dry Cleaning, Event Tickets, Jewelry, Furniture, etc.)		
Period	**% of Total Disallowed**	**% Audits with Findings**
Calendar Year (CY) 2014	1.41%	61.54%
CY 2015	0.08%	21.74%
CY 2016	0.54%	7.69%
CY 2017	0.11%	17.39%
CY 2018	0.00%	0.00%
CY 2019	< 0.01%	5.56%
CY 2020	0.00%	0.00%
SFY 2021-22	0.97%	40.00%
SFY 2022-23	0.03%	40.00%

Common Findings and Rates of Occurrence

The following graph includes some of the more common findings and their corresponding rates of occurrence for the audits performed, as identified in the SFY 2022–23 reports.

Patterns of Inappropriate Claimed Expenses for Preschool Special Education Services in New York State – SFY 2022–23 Audit Findings



Conclusion

Preschool special education plays a critical role in the development of children with special needs. Accordingly, OSC continues its audits of these providers, identifying millions of dollars in inappropriate charges, including expenses claimed from other programs, reimbursements for unsupported expenditures, and costs incorrectly allocated to special education programs. OSC is committed to emphasizing the importance of strong internal controls and external oversight in order to provide necessary and appropriate special education services. OSC encourages State policymakers to uphold the State's long-standing commitment to special education programs and to ensure that they are financially sustainable for future generations.

Appendix A
SFY 2022–2023 – OSC Preschool Special Education Program Audits

Summary of Submitted and Disallowed Program Costs

Provider/Audit Name	Location	Audited Program Costs Reported on CFR	Number of Years in Scope	Total Disallowances
Abilities First, Inc.	Dutchess	$4,412,718	1	$236,209
All My Children Day Care	Kings	$8,034,281	3	$5,300,127
Cantalician Center for Learning	Erie	$2,231,691	1	$358,254
Empowering Minds Therapy Inc.	Suffolk	$235,364	1	$7,811
Field of Dreams, Inc.	Orange	$2,397,015	2	$172,121
Little Meadows Early Childhood Center, Inc.	Queens	$10,240,930	3	$395,644
St. Mary's Hospital for Children, Inc.	Queens	$11,740,515	3	$257,142
The Arc Erie County New York	Erie	$3,570,165	1	$8,724
United Cerebral Palsy Association of Nassau County, Inc.	Nassau	$3,769,517	1	$159,069
Williamsburg Infant & Early Childhood Development Center, Inc.	Kings	$11,051,081	3	$822,224
Totals		**$57,683,277**		**$7,717,325**

Appendix B
SFY 2022–2023 – OSC Preschool Special Education Program Audit Summaries

Private special education providers must be approved by SED to deliver special education services—such as Special Education Itinerant Teacher (SEIT), Special Class (SC), and Special Class in an Integrated Setting (SCIS) programs—to children in New York. SED annually develops rates for preschool special education programs operated by approved providers based on actual personal service and other than personal service (OTPS) costs reported to SED on annual Consolidated Fiscal Reports (CFRs). These rates are used to reimburse providers for eligible costs, which must be in compliance with comprehensive instructions and guidelines set forth in SED's Consolidated Fiscal Reporting and Claiming Manual (CFR Manual) and its Reimbursable Cost Manual (RCM). Generally, auditors recommended that, in each case, SED review the disallowances identified and make the necessary adjustments to the costs reported on the provider's CFRs and to the provider's tuition reimbursement rates, as warranted, and remind providers of the pertinent SED requirements that relate to the deficiencies identified; and that the provider ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification, as needed.

Abilities First, Inc. (AFI) (2022-S-23) is a Dutchess County not-for-profit organization authorized by SED to provide preschool SC – over 2.5 hours per day, preschool SCIS – over 2.5 hours per day, and preschool SCIS – 2.5 hours per day special education services to children with disabilities between the ages of three and five years. For the fiscal year ended June 30, 2019, AFI reported more than $4.41 million in reimbursable costs for its preschool cost-based programs. The OSC audit recommended disallowances of $236,209 in costs that did not comply with SED's requirements for reimbursement, as follows:

- $164,406 in personal service costs, including $157,881 in overallocated salary and fringe benefit costs and $6,525 in other ineligible costs such as bonuses paid to executives not in direct care titles, referral bonuses for administrative staff, automobile allowance, and excess compensation payments.
- $60,160 in OTPS costs, including $43,917 in ineligible costs, some of which included future lease expenses; $16,009 in unsupported or insufficiently documented costs, such as depreciation, property damage, legal, and staff reimbursement costs; and $234 for an incorrectly calculated administrative rate adjustment.
- $11,643 in OTPS costs, including $6,535 in undisclosed related party or LTAL transactions with unsupported documentation such as bank fees, insurance, interest expense, legal fees, and other expenses; and $5,108 in payments made on an interest-only capital line-of-credit loan while also having an outstanding LTAL transaction.

All My Children Day Care (AMC) (2020-S-3) is a New York City-based not-for-profit organization authorized by SED to provide, among other programs, SEIT special education services to children with disabilities who are between the ages of three and five years. For the three fiscal years ended June 30, 2015, AMC reported approximately $8 million in reimbursable costs for its SEIT program. The OSC audit recommended disallowances of $5,300,127 in reported costs that did not comply with SED's requirements for reimbursement, as follows:

- $3,118,238 in unsupported costs for fiscal year 2014–15. AMC did not provide a reconciliation between the general ledger and the CFR submitted to SED to calculate AMC's reimbursement rate for that year; therefore, we could not conduct a review of the claimed expenses.
- $1,806,360 in unsupported costs for fiscal year 2012–13. AMC did not provide the general ledger and reconciliation between the general ledger and CFR; as a result, we could not conduct a review of the claimed expenses.
- $301,014 in non-reimbursable salaries and fringe benefits for fiscal year 2013–14, including $175,672 in compensation costs for three employees for whom AMC did not provide time records; $111,436 related to conflicting information provided to SED and OSC in support of agency administration salaries; and $13,906 in other non-allowable fringe benefit costs.
- $74,515 in non-reimbursable OTPS costs for fiscal year 2013–14, including $47,710 for costs (e.g., rent, utilities, repairs) related to non-approved SEIT sites; $11,992 for charitable contributions; and $14,813 for other ineligible OTPS costs.

Cantalician Center for Learning (Cantalician) (2022-S-7) is a Erie County not-for-profit organization authorized by SED to provide, among other programs, preschool SC – over 2.5 hours per day and preschool SCIS – over 2.5 hours per day special education services to children with disabilities between the ages of three and five years. For the fiscal year ended June 30, 2017, Cantalician reported approximately $2.23 million in reimbursable costs on its CFRs for two rate-based special education programs. The OSC audit recommended disallowances of $358,254 in costs that did not comply with SED's requirements for reimbursement, as follows:

- $347,406 in personal service costs, including $111,303 related to staffing in excess of SED-approved student to teacher/teacher aide/teacher assistant ratios; $166,808 in non-allowable compensation for therapists; and $69,295 in non-allowable compensation for program administrative staff.
- $10,848 in OTPS costs, including $9,673 in unsupported costs and $1,175 in ineligible costs such as food, flowers, gift cards, charitable donations, dinner tickets, a defensive driving class, and late fees.

Empowering Minds Therapy Inc. (Empowering Minds) (2021-S-21) is a Suffolk County for-profit organization authorized by SED to provide SEIT special education services to children with disabilities who are between the ages of three and four years. The OSC audit focused primarily on expenses claimed on Empowering Minds' CFR for the fiscal year ended June 30, 2015. Empowering Minds reported $235,364 in reimbursable costs for its SEIT program. The OSC audit recommended disallowances of $7,811 in costs that did not comply with SED's requirements for reimbursement, as follows:

- $6,899 in personal service costs, for compensation for five employees that was not fully supported, non-reimbursable, or related to dual-employment compensation that overlapped Empowering Minds' compensation.
- $912 in OTPS costs, consisting of $1,009 in a non-allowable goodwill expense offset by $97 in franchise tax previously disallowed by SED that OSC found to be allowable.
- Empowering Minds' President and Vice President share a familial relationship and received compensation. This LTAL relationship was not disclosed on its CFR-5 as required.

Field of Dreams, Inc. (FOD) (2022-S-2) is an Orange County for-profit organization authorized by SED to provide preschool SC – over 2.5 hours per day and preschool SCIS – over 2.5 hours per day special education services to children with disabilities between the ages of three and five years. For the two fiscal years ended June 30, 2019, FOD reported approximately $2.4 million in reimbursable costs for its preschool cost-based programs. The OSC audit recommended disallowances of $172,121 in costs that did not comply with SED's requirements for reimbursement, as follows:

- $96,052 in personal service costs, consisting of $71,197 in executive compensation that was in excess of the allowable median rate and $24,855 in related-party salaries without supporting work documentation.
- $43,574 in OTPS costs, consisting of $21,760 in ineligible costs such as food, meals and entertainment, clothing costs for staff, gifts, and costs for advertising and promotion that consisted primarily of donations and fundraisers; $11,265 for the loss on the sale of a vehicle; $5,974 in depreciation expense related to a tractor and a vehicle that lacked support that they were related to the programs; and $4,575 in non-program costs.
- $32,495 in OTPS costs, including $21,455 in unsupported or insufficiently documented transactions; $8,734 in vehicle expenses where vehicle logs were not maintained as required; $1,500 in overreported supplies and material expenses for the Programs that exceeded the documented allocation percentages; and $806 for subcontractor payments not supported through either payroll or invoices.

Little Meadows Early Childhood Center, Inc. (Little Meadows) (2021-S-4) is a New York City-based for-profit organization authorized by SED to provide, among other programs, full-day SC, half-day SC, SCIS, and half-day SCIS special education services to children with disabilities between the ages of three and five years. The OSC audit focused primarily on expenses that Little Meadows claimed on its CFR for the fiscal year ended June 30, 2018 and certain expenses claimed on its CFR for the two fiscal years ended June 30, 2017. For the three fiscal years ended June 30, 2018, Little Meadows reported approximately $10.2 million in reimbursable costs for its preschool cost-based programs. The OSC audit recommended disallowances of $395,644 in costs that did not comply with SED's requirements for reimbursement, as follows:

- $217,469 in excessive allocation/compensation expenses related to an independent contractor ($95,864), employees of Little Meadows ($88,045), an independent contractor who later became an employee of Little Meadows ($8,180), and an independent contractor who did not work the required number of hours per month ($25,380).
- $89,484 in ineligible and insufficiently documented accounting fees and services ($60,466); non-reimbursable fringe benefits ($12,626); advertising ($6,985); unallowable expenses (e.g., employee perquisites, violations and fines, staff/parent food) ($4,810); consulting/legal fees ($3,428); and non-reimbursable home office expenses ($1,169).
- $57,834 in costs reported in the incorrect period, including $47,873 in OTPS costs such as accounting fees and system expenses, insurance/legal, supplies, student food, and utilities, among others; and $9,961 in personal service costs.
- $30,857 in non-reimbursable expenses for a 1:1 Aides program that should have been reported under a separate program code.

St. Mary's Hospital for Children, Inc. (St. Mary's) (2021-S-38) is a New York City-based not-for-profit organization authorized by SED to provide, among other programs, full-day SC special education services to children with disabilities who are between the ages of three and four years. The audit focused primarily on expenses claimed on St. Mary's CFR for the calendar year ended December 31, 2019, but also included certain expenses claimed on its CFRs for the two calendar years ended December 31, 2018. For the three calendar years ended December 31, 2019, St. Mary's reported approximately $12 million in reimbursable costs for its preschool cost-based program. The OSC audit recommended disallowances of $257,142 in costs that did not comply with SED's requirements for reimbursement, as follows:

- $93,358 in personal service costs, including $90,301 in excess executive compensation allocated to the preschool cost-based program; $2,372 in overstated non-mandated fringe benefit costs; and $685 in excess compensation paid above approved SED ratios.

- $163,784 in OTPS costs, including $150,752 in overallocated bond retirement fees; $4,853 in non-program related costs; $4,849 in allocated valet parking services that were neither reasonable nor directly related to the SED preschool cost-based program; $3,202 in ineligible costs; and $128 for expenses charged to the incorrect CFR reporting period.

The Arc Erie County New York (Arc Erie) (2022-S-10) is an Erie County not-for-profit organization authorized by SED to provide preschool SC – over 2.5 hours per day and preschool SCIS – over 2.5 hours per day special education services to children with disabilities who are between the ages of three and four years. For the fiscal year ended June 30, 2019, Arc Erie reported approximately $3.6 million in reimbursable costs for its preschool cost-based programs. The OSC audit recommended disallowances of $8,724 in costs that did not comply with SED requirements for reimbursement, as follows:

- $6,178 in OTPS costs, including non-reimbursable costs, such as $1,715 in promotional items; $1,707 in food for staff; $955 in undocumented expenses; $813 in gifts for staff; $701 for parties; $160 in overreported CFR costs; and $127 in donations.
- $2,546 in OTPS costs, including $1,632 in ineligible non-audit services and $914 in ineligible investment fees.

United Cerebral Palsy Association of Nassau County, Inc. (CPN) (2021-S-14) is a Nassau County not-for-profit organization authorized by SED to provide, among other programs, preschool SC – over 2.5 hours per day and preschool SC – 2.5 hours per day to children with disabilities who are between the ages of three and five years. For the fiscal year ended June 30, 2018, CPN reported approximately $3.8 million in reimbursable costs for its two rate-based programs. The OSC audit recommended disallowances of $159,069 in costs that did not comply with SED's requirements for reimbursement, as follows:

- $145,501 in personal service costs for salaries and fringe benefits, consisting of $101,794 in unsupported time and payroll records; $42,442 in excess of staffing levels approved by SED; $1,223 claimed on the CFR but related to a non-SED position; and $42 in excess of average regional levels.
- $13,568 in OTPS costs, including $8,343 in insufficiently documented vehicle costs; $5,225 in unsupported and ineligible costs such as non-program-related costs, penalty fees, entertainment, gifts, food for staff, promotional, and laundry charges, as well as insufficiently documented costs such as interpreter services, among others.
- CPN also did not discuss with SED whether disclosure of the LTAL relationship involving the Treasurer was necessary given the relationship between CPN and the CP Foundation of Nassau. Lacking such disclosure on the CFR-5, SED and other CFR users are not aware of the related parties that CPN conducts business with.

Williamsburg Infant & Early Childhood Development Center, Inc. (Williamsburg) (2021-S-22) is a New York City-based not-for-profit organization authorized by SED to provide, among other programs, full-day SC special education services to children with disabilities between the ages of three and five years. The OSC audit focused primarily on expenses claimed on Williamsburg's CFR for the fiscal year ended June 30, 2019 and certain expenses that Williamsburg claimed on its CFR for the two fiscal years ended June 30, 2018. For the three fiscal years ended June 30, 2019, Williamsburg reported approximately $11 million in reimbursable costs for its preschool cost-based program. The OSC audit recommended disallowances of $822,224 in costs that did not comply with SED's requirements for reimbursement, as follows:

- $267,868 in insufficiently documented personal service costs, including $200,403 for 12 employees (Teachers and Teacher Assistants) on two class rosters (preschool cost-based and non-program) and an absence of support indicating the program they were hired and worked for; $44,994 for a remote working administrative employee without an employment contract or evidence of work product; and $22,471 for eight employees (Teachers and Teacher Assistants) without a classroom assignment and documentation they provided services to the preschool cost-based program.
- $554,356 in OTPS costs, including $424,478 in ineligible property and related expenses; $69,345 in ineligible costs such as non-program, legal, interest expense, staff commuting costs and food; $42,813 in insufficiently documented expenses including repairs and maintenance, pest inspections, computer technical support, and accounting costs; and $17,720 for contracted substitute expenses that lacked sufficient support.

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