



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY12234

TO: Audits/Budget and Finance Committee
FROM: Sharon Cates-Williams *Sharon Cates-Williams*
SUBJECT: Board of Regents Oversight of Financial Accountability
DATE: February 2, 2015
AUTHORIZATION(S): *Elizabeth R Berlin*

SUMMARY

Issues for Discussion

The following topics will be discussed with the Members of the Committee on Audits/Budget and Finance:

1. Completed Audits including the Report of the Internal Audit Workgroup. (Attachments I & II).

Reason(s) for Consideration

Update on activities.

Proposed Handling

Discussion and guidance.

Procedural History

The information is provided to assist the Committee in carrying out its oversight responsibilities.

Background Information

1. Completed Audits including the Report of the Internal Audit Workgroup
The Committee is being presented with 14 audits this month. (Attachments I & II)

Audits are provided as follows:

Office of the State Comptroller

Aspire of Western New York
Briarcliff Manor Union Free School District
Bright Start Pediatric Services
Circle of Friends (aka Early Childhood Learning Center)
Dynamic Center Inc.
Early Childhood Education Center
Functional MDS
Gateway-Longview, Inc.
Hempstead Union Free School District
Institutes of Applied Human Dynamics
Metro Therapy, Inc.
Salmon River Central School District
SUNY Stony Brook University
The Child School

Recommendation

No action required for audit initiatives and presentation of audits.

Timetable for Implementation

N/A

The following materials are attached:

- Report of the Internal Audit Workgroup and Summary of Audit Findings including Audit Abstracts (Attachments I and II)

**Regents Committee on Audits/Budget and Finance
February 2015
Review of Audits Presented
Department's Internal Audit Workgroup**

Newly Presented Audits

The Department's Internal Audit Workgroup reviewed the fourteen audits that are being presented to the Committee this month. All audits were issued by the Office of the State Comptroller (OSC). Ten audits were of special education services providers, three were school districts, and one of a university.

The findings were in the areas of noncompliance with Department's Reimbursable Cost Manual, management of district resources, budgeting, procurement, and tuition assistance program.

The Department has issued letters to the school district auditees reminding them of the requirement to submit corrective action plans to the Department and OSC within 90 days of their receipt of the audit report.

The Internal Audit Workgroup identified the audit of Hempstead Union Free School District and the ten audits of special education services providers to bring to the Committee's attention for informational purposes.

**February 2015 Regents Audits/Budget and Finance Committee Meeting
Summary of Audits Requiring Specific Attention**

Audit Summary	Recommendation/Response
<p>Hempstead Union Free School District</p> <ul style="list-style-type: none"> • OSC Audit • The Board did not make sound, transparent financial decisions regarding payments to administrators. • Important Board decisions concerning hiring of administrators were made at special or emergency meetings. • Four of 23 employees sampled in the audit are not qualified for their position. In addition, non-certified substitute teachers are working more days than allowed by Regulations. • Student special education evaluations are not performed properly. Inadequate monitoring to ensure all services in student Individualized Education Program was received. • User access to Student Information System was not limited. 	<p>The report's recommendations focused on the Board making sound financial decisions in the best interest of the District; investigating any questionable payments or credits; and refraining from entering into confidential agreements. They also addressed the strengthening of procedures in hiring qualified employees; ensuring timely evaluations of special education students and monitoring services received; and reviewing and revising user access rights to the Student Information System.</p> <p><i>District officials generally agreed with the report's recommendations and have indicated that they plan to implement corrective actions and have already begun making changes.</i></p> <p><u>Next Step</u></p> <p>Department staff will ensure that all the recommendations have been addressed by Hempstead's corrective action plan due in March 2015.</p>
<p>Aspire of Western NY, Bright Start Pediatric Services, Circle of Friends, Dynamic Center, Early Childhood Education Center, Functional MDS, Gateway-Longview, Institutes of Applied Human Dynamics, Metro Therapy, and The Child School – Compliance with Reimbursable Cost Manual (RCM)</p> <ul style="list-style-type: none"> • OSC Audits 	<p>The report's recommendations focused on the Department's review of the disallowances in the audit and adjustments to the Consolidated Fiscal Report as appropriate; reminding providers' officials of the Department guidelines related to deficiencies identified; and working with them to ensure proper reporting of reimbursable costs.</p> <p><i>The Department agreed with the recommendations and will review and make adjustments as noted in the reports and recover any overpayments as appropriate, along with providing technical assistance to the providers</i></p>

<ul style="list-style-type: none"> • Amount disallowed range from \$604 to \$2.4 million. • Findings related to personal services costs reported– Included undocumented salaries paid, lack of timesheets, costs incorrectly charged to Department program, and executive compensation exceeded regional median rate. • Non-personal services costs reported included undocumented or unrelated to the Department program, personal costs, and did not comply with RCM. 	<p>.</p> <p><u>Next Step</u></p> <p>Department workgroup (staff from Office of Special Education, Rate Setting Unit, Counsel’s Office and Audit Services) are reviewing approval status of the providers in light of the audit findings.</p>
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February Regents Audits/Budget and Finance Committee Meeting Summary of Audit Findings

Audit	Procurement	Budgeting	Tuition Assistance Program (TAP)	Other
Office of the State Comptroller				
* Aspire of Western New York and State Education Department (footnote 1)	√			√
Briarcliff Manor Union Free School District		√		
* Bright Start Pediatric Services and State Education Department (footnote 1)				√
Circle of Friends (aka Early Childhood Learning Center) and State Education Department	√			
* Dynamic Center Inc. and State Education Department (footnote 1)	√			√
* Early Childhood Education Center and State Education Department (footnote 1)				√
* Functional MDS and State Education Department (footnote 1)				√
Gateway-Longview Inc. - State Education Department; Office of Children and Family Services; Office of Mental Health; and Department of Health	√			
* Hempstead Union Free School District (footnote 2)				√
* Institutes of Applied Human Dynamics and State Education Department (footnote 1)				√
* Metro Therapy, Inc. and State Education Department (footnote 1)				√
Salmon River Central School District		√		
SUNY Stony Brook			√	
* The Child School and State Education Department (footnote 1)	√			√
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1 Noncompliance with Reimbursable Cost Manual
 2 Management of District Resources

Office of the State Comptroller

Audit	Major Finding(s)	Recommendation/Response
<p>Aspire of Western New York and State Education Department- Compliance with the Reimbursable Cost Manual 2014-S-36</p>	<p>\$7,501 adjustment (.20% of \$3.8 million reported costs)</p> <p>The preschool special education services provided by Aspire include Preschool Integrated Special Education and Special Education Itinerant Teacher services (collectively referred to as the Programs). For the year ended December 31, 2012, the audit identified \$7,501 in costs charged to the Programs that did not comply with the Department requirements for reimbursement. The costs included \$5,262 in consultant services and \$2,239 in various other than personal service (OTPS) costs such as entertainment and food expenses. The audit also identified \$32,377 in questionable costs for consultant services that either were not selected through solicitation of competitive bids or lacked sufficient evidence that the services were the most economical and/or appropriate.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on the Department's review of the disallowances in the audit and adjustments to the Consolidated Fiscal Report as appropriate; and reminding Aspire officials of Department guidelines related to deficiencies identified.</p> <p><i>The Department agreed with the recommendations and will review and make adjustments as noted in the report and recover any overpayments as appropriate, along with providing technical assistance to the provider.</i></p>
<p>Briarcliff Manor Union Free School District Budgeting Practices 2014M-313 9th Judicial District</p>	<p>The District operates three schools and has approximately 1,500 students and 260 employees. The District's budgeted expenditures for the 2014-15 fiscal year were \$49,335,000, which were funded primarily with real property taxes, State aid and tuition from students who resided outside of the District.</p> <p>District officials developed reasonable budgets and managed fund balance responsibly in accordance with statute. Education Law allows a district to maintain up to 4 percent of the ensuing year's budget as unrestricted fund balance. The District has maintained approximately this amount of unrestricted fund balance for the three fiscal years that were</p>	<p>There were no recommendations.</p>

	reviewed.	
Bright Start Pediatric Services and State Education Department- Compliance with the Reimbursable Cost Manual 2014-S-34	<p>\$4,798 adjustment (1.08% of \$442,638 reported costs)</p> <p>For the fiscal year ended June 30, 2013, the audit identified \$4,798 in costs charged to the Special Education Itinerant Teacher program that did not comply with the Department's requirements for reimbursement. The disallowances included \$4,552 in various other than personal service (OTPS) costs, such as vehicle and food expenses, and \$246 in personal service costs for employee bonuses.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on the Department's review of the disallowances in the audit and adjustments to the Consolidated Fiscal Report as appropriate; and reminding Bright Start officials of Department guidelines related to deficiencies identified.</p> <p><i>The Department agreed with the recommendations and will review and make adjustments as noted in the report and recover any overpayments as appropriate, along with providing technical assistance to the provider.</i></p>
Circle of Friends (aka Early Childhood Learning Center) and State Education Department - Compliance with the Reimbursable Cost Manual 2014-S-32	<p>\$604 adjustment (.05 % of \$1.1 million reported costs)</p> <p>Based on the review of a sample of transactions, the audit found that, generally, the costs reported by Circle of Friends on their Consolidated Fiscal Reports (CFR) for the fiscal year ended June 30, 2013 were properly calculated, adequately documented, and allowable according to the Reimbursable Cost Manual (RCM). The audit focused on selected categories of costs charged to Circle of Friends' special education programs including personal service; property and lease; repairs and maintenance; utilities and office supplies; and postage. The audit reviewed 336 transactions totaling</p>	<p>3 recommendations</p> <p>The report's recommendations focused on the Department's review of disallowances in the audit and adjustments to the CFR as appropriate, and reminding Circle of Friends officials of Department guidelines related to deficiencies identified.</p> <p><i>The Department agreed with the</i></p>

	\$146,082 in expenses and identified \$604 in non-reimbursable costs that were either undocumented or unnecessary.	<i>recommendations and will review and make adjustments as noted in the report and recover any overpayments as appropriate, along with providing technical assistance to the provider.</i>
Dynamic Center Inc. and State Education Department - Compliance with the Reimbursable Cost Manual 2014-S-3	<p>\$420,953 adjustment (38.27% \$1.1 million reported costs)</p> <p>Dynamic reported \$420,953 in non-reimbursable costs for the Special Education Itinerant Teacher Program (SEIT) for the year ended June 30, 2012. This included \$316,020 in personal service costs and \$104,933 in other-than-personal-service costs that were either unsupported, not related to the SEIT Program, personal in nature, incorrectly calculated or allocated to the SEIT Program, or otherwise not allowable per Department's Reimbursable Cost Manual.</p>	<p>3 recommendations</p> <p>The report's recommendations focused on Department's review of the disallowances in the audit and adjusting the Consolidated Fiscal Report as appropriate; and reminding Dynamic officials of Department guidelines related to deficiencies identified.</p> <p><i>The Department agreed with the recommendations and will review and make adjustments as noted in the report and recover any overpayments as appropriate, along with providing technical assistance to the provider.</i></p>
Early Childhood Education Center and State Education Department - Compliance with the Reimbursable Cost Manual 2014-S-35	<p>\$3,501 adjustment (.12% of \$2.8 million reported costs)</p> <p>The audit identified \$3,501 in costs reported during the fiscal year ending June 30, 2012, that did not comply with Department's requirements for reimbursement. According to the Reimbursable Cost Manual, gifts, food for board meetings, travel expenses that lack a stated purpose, and costs that lack supporting documentation are not reimbursable. Early Childhood Education Center (ECEC)</p>	<p>3 recommendations</p> <p>The report's recommendations focused on the Department's review of the disallowances in the audit and adjusting the Consolidated Fiscal report as appropriate; and reminding ECEC officials of Department guidelines</p>

	<p>officials reported \$1,897 in miscellaneous items for gifts to its employees (such as iPads, a Kindle, and a photo printer) and food for a board meeting. They also reported \$1,537 in travel costs that lacked the required documentation of the program-related purpose of the travel. ECEC officials were also unable to provide supporting documentation for other transactions totaling \$67.</p>	<p>related to deficiencies identified.</p> <p><i>The Department agreed with the recommendations and will review and make adjustments as noted in the report and recover any overpayments as appropriate, along with providing technical assistance to the provider.</i></p>
<p>Functional MDS and State Education Department - Compliance with the Reimbursable Cost Manual 2014-S-1</p>	<p>\$794,219 adjustment (22.69% of \$3.5 million reported costs)</p> <p>Functional MDS (MDS) provided special education itinerant teacher services and integrated therapeutic preschool special education programs (collectively referred to as Programs). For the fiscal year ended June 30, 2011, the audit identified \$794,219 in reported costs that do not comply with the Reimbursable Cost Manual requirements for reimbursement. These costs include \$685,032 in personal service costs and \$109,187 in other than personal service costs. Some of the disallowances include:</p> <ul style="list-style-type: none"> • \$198,888 in executive compensation and \$62,866 in compensation to agency administrative support employees that were improperly allocated to the Programs; • \$373,200 in compensation to personnel who did not work for the Programs; • \$31,780 for an independent consultant who provided services to an affiliated entity and not the Programs; and • \$31,478 for contracted direct care purportedly provided by six independent contractors that was not supported by documentation. 	<p>3 recommendations</p> <p>The report's recommendations focused on the Department's review of the disallowances in the audit and adjusting the Consolidated Fiscal Report and reimbursement rates as appropriate.</p> <p><i>The Department agreed with the recommendations and will review and make adjustments as noted in the report and recover any overpayments as appropriate, along with providing technical assistance to the provider.</i></p>

<p>Gateway-Longview, Inc. - State Education Department; Office of Children and Family Services; Office of Mental Health; and Department of Health - Cost of Reporting Programs Operated</p> <p>2012-S-17</p>	<p>\$2,400,000 adjustment (35.29% of \$6.8 million in revenue received from government sources for three fiscal years ending June 30, 2011)</p> <p>The purpose of the audit was to determine whether costs reported by Gateway-Longview, Inc. (Gateway) to the State Education Department (Department); the Office of Children and Family Services (OCFS); the Office of Mental Health (OMH); and the Department of Health (DOH) were properly calculated, adequately documented and allowable under the respective governing guidelines of these State agencies.</p> <p>For the audit period, nearly \$2.4 million in ineligible costs were disallowed, including costs lacking required documentation and/or sufficient details of charges. Gateway routinely entered into business transactions with companies affiliated with members of Gateway's Board of Directors without competitive bidding or evidence that transactions were fair and reasonable. In addition, \$378,946 was disallowed for items such as expenses lacking documentation; expenses that were not program-related; and expenses for ineligible items such as food, flowers, personal cell phone allowances, and gifts for staff.</p> <p>Certain actions involving Gateway's Board of Directors that pertain to the related-party business arrangements were questioned. Based on these actions, the audit concluded that significant improvements in the Board's conduct are needed to ensure the financial and programmatic integrity of Gateway's programs in the future.</p>	<p>2 recommendations</p> <p>The report's recommendations focused on the Department, OCFS, OMH, and DOH officials' follow up on inappropriate and unsupported expenses; revise reimbursement rates for Gateway; seek restitution as appropriate; and give directive to Gateway that board members avoid conflicts of interest.</p> <p><i>Department officials agreed with the recommendations and will implement adjustments as appropriate.</i></p>
<p>Hempstead Union Free School District Management of District</p>	<p>The Board did not make sound, transparent financial decisions regarding payments to District administrators. The Board appointed administrators; changed administrators; and</p>	<p>24 recommendations</p> <p>The report's recommendations</p>

<p>Resources 2014M-253 10th Judicial District</p>	<p>entered into and changed agreements with no documented plan, reason, or clear benefit to the District. The Board approved a confidential separation agreement with the former Superintendent and was not transparent when adopting the resolutions for the current Superintendent's salary. Most of these Board decisions were made at special or emergency meetings. The Board's actions in these matters resulted in the District simultaneously paying two Superintendents a total of \$449,604 during the 2012-13 school year.</p> <p>District officials did not ensure that employees were qualified for their positions. Non-certified substitute teachers are working more days than allowed by the Regulations. Further, they did not always ensure that students' special education evaluations were performed properly and did not adequately monitor the services provided to ensure all services specified in their Individualized Education Program were received. Finally, the District did not limit user access to its Student Information System, which increases the risk that District information could be compromised.</p>	<p>focused on the Board making sound financial decisions in the best interest of the District; investigating any questionable payments or credits; and refraining from entering into confidential agreements. They also addressed the strengthening of procedures in hiring qualified employees; ensuring timely evaluations of special education students and monitoring services received; and reviewing and revising user access rights to the Student Information System.</p> <p><i>District officials generally agreed with the report's recommendations and have indicated that they plan to implement corrective actions and have already begun making changes.</i></p>
<p>Institutes of Applied Human Dynamics and State Education Department - Compliance with the Reimbursable Cost Manual 2014-S-39</p>	<p>\$456,292 adjustment (19.8% of \$2.3 million reported costs)</p> <p>The Institutes of Applied Human Dynamics (Institute) provides full-day and half-day preschool special education programs, collectively referred to as Programs. For the three fiscal years ended June 30, 2013, the audit identified \$456,292 in reported costs that did not comply with Reimbursable Cost Manual requirements. The audit recommends such costs be disallowed. These ineligible costs included \$386,469 in personal service costs and \$69,823 in other than personal</p>	<p>3 recommendations</p> <p>The report's recommendations focused on the Department's review of the disallowances in the audit and adjusting the Consolidated Fiscal Report as appropriate; and working with Institute officials to ensure proper reporting of reimbursable costs.</p>

	<p>service costs. Among the disallowances we identified were:</p> <ul style="list-style-type: none"> • \$228,479 in salaries and fringe benefits, for 30 employees, that were improperly allocated to the Department Programs; • \$113,088 in unapproved program costs; and • \$57,146 in rent, utility, repair, and tax expenses that were improperly allocated to the Department Programs. 	<p><i>The Department agreed with the recommendations and will review and make adjustments as noted in the report and recover any overpayments as appropriate, along with providing technical assistance to the provider.</i></p>
<p>Metro Therapy, Inc. and State Education Department Compliance with the Reimbursable Cost Manual 2014-S-164</p>	<p>\$833,949 adjustment (11.7% of \$7.1 million reported costs)</p> <p>The audit identified \$833,949 in non-reimbursable costs reported during the three fiscal years ended June 30, 2011. Among the costs recommended for disallowance are:</p> <ul style="list-style-type: none"> • \$357,063 in excessive allocations of salaries and fringe benefits to the Special Education Itinerant Teacher (SEIT) program; • \$185,512 in compensation paid to five individuals who did not provide services to the SEIT program; • \$116,069 in excessive compensation paid to the Executive Director and the Assistant Executive Director; • \$66,636 in parent company allocation expenses that were not in compliance with the Manual; and • \$62,138 in unrelated or undocumented non-personal service costs. 	<p>3 recommendations</p> <p>The report's recommendations focused on the Department's review of the disallowances in the audit and adjusting the Consolidated Fiscal Report as appropriate; and working with Metro Therapy's officials to help ensure proper reporting of reimbursable costs.</p> <p><i>The Department agreed with the recommendations and will review and make adjustments as noted in the report and recover any overpayments as appropriate, along with providing technical assistance to the provider.</i></p>
<p>Salmon River Central School District Budgeting Practices and Financial Condition 2014M-251</p>	<p>The Board did not adopt structurally balanced budgets based on reasonable estimates. District officials repeatedly overestimated revenues by a total of approximately \$8.2 million and appropriations by a total of approximately \$11.2 million during the 2011-12 through 2013-14 fiscal years. The</p>	<p>3 recommendations</p> <p>The report's recommendations focused primarily on the Board adopting general fund budgets with</p>

<p>4th Judicial District</p>	<p>Board also appropriated fund balance as a funding source in the 2011-12 and 2012-13 budgets, but the District did not use these funds because it ended each year with an operating surplus. As a result, the District retained more fund balance than was legally allowable, levied unnecessary taxes, and compromised the transparency of District finances to taxpayers. It is projected the District will have a surplus for the 2013-14 fiscal year, and the Board continued these same budgeting practices in its proposed 2014-15 budget.</p>	<p>realistic revenue and expenditure estimates; developing a fund balance policy for unrestricted fund balance amount; and development of a plan for use of additional unrestricted fund balance amounts that benefits taxpayers.</p> <p><i>District officials generally agreed with the report's recommendations and have indicated that they plan to initiate corrective action.</i></p>
<p>SUNY Stony Brook Tuition Assistance Program (TAP) - Higher Education Services Corporation 2013-T-2 10th Judicial District</p>	<p>\$4,170,880 adjustment (6.9% of \$60.6 million awards)</p> <p>The audit determined that Stony Brook was overpaid \$4,170,880 because school officials incorrectly certified certain students as eligible for TAP awards. The audit tested the accuracy of the school's certifications by reviewing a sample of 175 randomly selected awards from the three academic years ended June 30, 2011.</p> <p>Twenty-one payments were disallowed, totaling \$30,830, for a variety of reasons, including payments for students who did not meet the full-time attendance requirement and students who were not in good academic standing. Statistical projections of these 21 awards to the school's payment population for the three-year review period results in an audit disallowance of \$4,109,233. Another 44 awards were disallowed, totaling \$61,647, relating to payments made for sampled students outside of the three-year review period.</p>	<p>2 recommendations</p> <p>The report's recommendations focused on Higher Education Services Corporation recovering \$4,170,880 plus any interest for incorrect TAP certifications and the Department working with Stony Brook officials to ensure compliance with the TAP program requirements.</p> <p><i>Department and Stony Brook officials generally agreed with the recommendations and have initiated corrective action.</i></p>
<p>The Child School and State Education Department</p>	<p>\$992,765 adjustment (3.8% of \$26 million reported costs)</p> <p>The audit identified \$992,765 in reported personal service and</p>	<p>3 recommendations</p> <p>The report's recommendations</p>

<p>Compliance with the Reimbursable Cost Manual 2014-S-67</p>	<p>other-than-personal-service (OTPS) costs that were ineligible for reimbursement during the three fiscal years ended June 30, 2011. The ineligible personal service costs (\$435,471) included overstated compensation, ineligible bonuses, non-program-related costs, and other unsupported costs. Among these ineligible costs were \$114,338 in excessive salary expenses for 70 employees; \$168,579 in excessive pension costs; and \$41,523 in bonuses that were not supported by the required formal performance evaluations. The ineligible OTPS costs (\$557,294) were either unsupported, unnecessary, unreasonable, or not program related. Among the ineligible OTPS costs were \$180,073 for a less-than-arm's length contract for building maintenance and cleaning services; \$139,647 for non-program related and/or inadequately documented "Other" expenses; and \$72,856 for costs (including depreciation) for the vehicles purchased and leased for the School's Executive Directors.</p>	<p>focused on the Department's review of the disallowances in the audit and adjusting the Consolidated Fiscal Report (CFR) as appropriate; and working with School officials to help ensure compliance with the Reimbursable Cost Manual and CFR reporting of reimbursable costs.</p> <p><i>The Department agreed with the recommendations and will review and make adjustments as noted in the report and recover any overpayments as appropriate, along with providing technical assistance to the provider.</i></p>
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