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

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Division of State Government Accountability

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# **Compliance with the Reimbursable Cost Manual**

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**IncludED Educational Services, Inc.**  
**State Education Department**

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Report 2010-S-59

July 2012

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## Executive Summary

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### Purpose

To determine whether the costs reported by IncludED Educational Services Inc. (IncludED) on its Consolidated Fiscal Report (CFR) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) Reimbursable Cost Manual (Manual). The audit covers the two fiscal years ended June 30, 2009.

### Background

IncludED Educational Services (IncludED), located in Cedarhurst, NY, provides special education itinerant teacher and integrated special class services to disabled preschool children. The New York City Education Department (DoE) and other localities pay tuition and fees to IncludED using rates set by SED. SED sets these rates using financial information that IncludED presents in its annual CFRs filed with SED. During fiscal years 2007-08 and 2008-09, IncludED claimed and received approximately \$12.6 million in State support.

### Key Findings

We disallowed \$2,634,511 in costs claimed by IncludED because they were not properly calculated, were inadequately documented, or were otherwise unallowable per the Manual. The disallowances included \$1,864,843 in personal service costs and \$769,668 in other than personal service costs. Specifically, we determined that:

- IncludED could not provide documentation to adequately support salary and wage costs for 50 employees totaling \$1,540,082. Of this amount, \$856,827 was paid to 11 relatives of the Executive Director - who routinely deposited the paychecks (totaling \$115,196) of his two sons into his own personal bank account. When fringe benefits (totaling \$324,761) were allocated, the disallowance for personal services totaled \$1,864,843.
- Supporting documentation was either unavailable or insufficient for several other than personal service costs. For example, IncludED was unable to provide invoices or receipts for \$156,158 in claimed office supply and advertising expenses. In addition, there was no documentation supporting the methodology for and calculation of depreciation expenses totaling \$59,553; and
- Certain claimed costs were for the personal benefit of IncludED's Executive Director or his relatives. For example, IncludED claimed \$15,382 in rent and other expenses related to the personal residence (in California) of the son of the Executive Director. Other personal expenses that were claimed included \$19,888 in meals, \$9,720 in student loan payments, and \$1,269 for airline tickets and related travel costs.

### Key Recommendation

- SED should review the exceptions identified by our audit and take the appropriate actions to recover the disallowed expenses.

### Other Related Audits/Reports of Interest

[Special Education Associates: Compliance with the Reimbursable Cost Manual \(2010-S-31\)](#)

[Capital District Beginnings: Compliance with the Reimbursable Cost Manual \(2011-S-1\)](#)

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

**Division of State Government Accountability**

July 20, 2012

Dr. John B. King, Jr.  
Commissioner  
State Education Department  
State Education Building - Room 125  
89 Washington Avenue  
Albany, NY 12234

Mr. Morton Kramer  
Executive Director  
IncludED Educational Services  
445 Central Avenue  
Cedarhurst, New York 11516

Dear Dr. King and Mr. Kramer:

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 fund services and 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 IncludED Educational Services, Inc. entitled *Compliance with the Reimbursable Cost Manual For the Fiscal Years Ended June 30, 2008 and June 30, 2009*. This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance 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 draft report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller  
Division of State Government Accountability*

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**State Government Accountability Contact Information:**

**Audit Director:** Brian Mason

**Phone:** (518) 474-3271

**Email:** [StateGovernmentAccountability@osc.state.ny.us](mailto: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](http://www.osc.state.ny.us)

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## Background

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IncludED Educational Services (IncludED), a not-for-profit business organized under the laws of the State of New York, is located in Cedarhurst, New York. IncludED provides special education itinerant teacher (program code 9135) and integrated special class services (program code 9160) to about 375 children between the ages of three and five years. For the two years ended June 30, 2009, IncludED claimed approximately \$12.6 million in reimbursable costs.

The New York City Department of Education (DoE) and other localities pay IncludED using tuition reimbursement rates established by the State Education Department (SED). These rates are based upon financial information IncludED submits in its annual consolidated fiscal reports (CFRs). SED personnel review the costs and revenues reported on the CFRs, and then they enter the data into SED's automated rate-setting system. Once calculated, the rates are subject to the review and approval of the State's Division of the Budget.

SED issued the Reimbursable Cost Manual (Manual) to provide guidance on the eligibility of all costs, as well as the allocation of non-direct care costs. Costs reported on the CFRs must comply fully with the guidelines in the Manual.

IncludED, which ceased operations during our audit engagement, owes the New York City Department of Education \$3.15 million for overpayment of services.

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# Audit Findings and Recommendation

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## Personal Service Costs

Personal service costs, which include all taxable salaries and fringe benefits paid or accrued to employees on the agency's payroll, must be reported on the CFRs as either direct care costs (teachers' salaries) or non-direct care costs (administrators' salaries). Direct care costs should be charged to specific programs based on employees' work locations and functions. Non-direct care costs should be allocated among all programs operated by an entity based on a fair and reasonable method. According to the Manual, costs are considered for reimbursement if they are reasonable, necessary, directly related to the education program, and documented sufficiently. Based on our review, we disallowed \$1,864,843 in personal service costs (including wages, salaries, and fringe benefits) that IncludED claimed for the two years ended June 30, 2009.

The Manual requires that payrolls be supported by employee time records prepared during (not after) the time period for which the employee was paid. In addition, employee time sheets are required to be signed by the employee and a supervisor, and must be completed at least monthly. IncludED officials were not able to provide us with any reliable time records or any sufficient alternative documentation (e.g. reports, memoranda, or other written communication) for 50 employees whose salaries and wages totaled \$1,540,082. Of this amount, \$856,827 (56 percent) represented salaries and wages paid to members of the Executive Director's family.

Although IncludED officials told us that time records were prepared contemporaneously by their employees, it appeared that many of these records were prepared by IncludED employees during our audit. For the following reasons, we could not rely on those time records to verify the amount of time certain employees worked:

- IncludED's external auditors stated, in the management letter for fiscal year 2008-09, that time records were not kept for the "majority of the employees."
- When we initially reviewed the personnel folder of the Executive Director's son to examine time and attendance records, the folder was empty. However, the day after we brought this to the attention of the payroll manager, the son's personnel folder was filled with time records. Also, paychecks (totaling \$115,196) for two of the Executive Director's sons were deposited into the Executive Director's personal checking account during both fiscal years.
- An employee was terminated and removed from the payroll in November 2008. However, we saw completed time records through June 2009 that were supposedly signed by both the employee and the Executive Director.
- The time records of the Executive Director's daughter had a repeated typographical error. All the time records showed a starting time of 9:00 a.m. and an ending time of 3:00 a.m. (instead of the correct time - 3:00 p.m.). This may indicate that the time records were prepared (incorrectly) in a batch at one time.

In addition, various laws require employers to pay mandated fringe benefits, including contributions for Social Security, Workers Compensation, Unemployment Insurance, and New

York State Disability Insurance. Non-mandated fringe benefits include the costs of employer contributions for discretionary benefits, including health and dental insurance. IncludED claimed costs for mandated and discretionary fringe benefits on its CFRs. We disallowed fringe benefit costs totaling \$324,761 related to the salaries and wages of the employees lacking adequate time records. Thus, the total disallowance for personal service costs totaled \$1,864,843 (\$1,540,082 + \$324,761).

## Other Than Personal Service Costs

The Manual provides guidance on the eligibility of costs for reimbursement and the documentation that is required to properly support such costs when they are reported on the CFRs. According to the Manual, reported costs should be reasonable, necessary, program-related, and documented properly. Moreover, all purchases must be supported with invoices that list the items purchased, and the dates of purchase and payment, as well as with canceled checks. Personal costs and costs incurred for activities not related to the educational programs are not eligible for reimbursement. We disallowed \$769,668 in other-than-personal service costs (OTPS) that did not comply with the Manual.

### *Unsupported and Inadequately Documented Costs*

We disallowed \$267,883 in various OTPS expenses. In certain instances, supporting documentation was either unavailable or insufficient. Specifically, we disallowed:

- \$156,158 in office supply and advertising expenses that were inadequately documented. IncludED officials were unable to provide invoices or receipts for these expenses;
- \$59,553 in unsupported depreciation expenses. IncludED officials did not provide any documentation supporting the methodology for and calculation of depreciation;
- \$49,497 for an adjusting entry in the general ledger. There was no documentation to explain or justify the basis for the entry; and
- \$2,675 in telephone charges that were not supported by invoices.

### *Contracted Direct Care Costs*

According to the Manual, all payments to contractors must be supported by itemized invoices which indicate the specific services that were provided, the date and number of hours of service that were provided, the hourly fee, and the total amount charged. In addition, when direct care services are provided, the documentation must indicate the name of the student, the date the service was provided, and the number of hours of service provided to the student on that date. Also, costs should only be claimed for the period in which they are actually incurred.

We disallowed \$197,335 in contracted direct care costs as follows:

- \$100,615 of direct care costs for which there was no supporting documentation (invoices or other records) to establish the children who were seen and the dates and hours of the



services provided;

- \$61,313 for a contractor's charges in excess of the amounts (rates) prescribed in its formal agreement with IncludED; and
- \$35,407 in claimed costs that applied to periods prior to July 1, 2007 and, therefore, were not eligible for reimbursement in the period they were claimed.

### *Leased Space and Non-Program Related Costs*

Written approval from the Commissioner or his designee is required before instructional or non-instructional space can be leased and/or improved. In addition, claimed costs must be related to the education program that is offered. We disallowed \$89,858 in costs for leased space and certain non-program operations (much of which took place in the leased space in question). IncludED officials did not receive the required pre-approvals from SED for a particular site. In addition, certain operating costs were not related to the programs we audited.

Specifically, we disallowed \$53,311 in claimed lease costs attributable to a day-care center, an Early Intervention program, and an unapproved program site in Flushing, New York. The day-care center and the Early Intervention program are separate from the education programs and the lease costs (\$27,562) for them should not have been claimed for reimbursement. Because the site in Flushing was not approved by SED, we disallowed the related lease costs of \$25,749.

In addition, we disallowed \$36,547 in costs for items such as cribs and changing pads that were used in the day-care center, the Early Intervention program, and other programs operated by IncludED's owner that were separate from the special education programs we reviewed.

### *Personal Expenses*

According to the Manual, personal expenses are not allowable. However, IncludED officials reported costs totaling \$58,249 for items which directly benefited themselves or family members. The costs in question were not related to IncludED's education programs, nor did they benefit those programs.

The disallowances included \$15,382 in rent and related costs (claimed during the 2008-09 year) for the personal residence, in California, of IncludED's Controller - the son of the Executive Director. Initially, IncludED officials told us that the rental property was an out-of-State satellite office for IncludED. However, SED officials told us that IncludED never applied (nor was approved) for an out-of-State office. Moreover, we contacted the rental property's landlord, and the landlord told us that the property in question was the personal residence of the Executive Director's son and his immediate family.

After we obtained this information, we spoke to the Executive Director. He was aware that public funds could not be used for the rental property, and he stated that he intended to reimburse IncludED for the improper payments. Further, the Executive Director's son admitted that he "made up" an invoice to obtain reimbursement of \$6,000 for the security deposit and rent - of which \$4,682 was allocated to the programs we audited. In addition to the \$4,682 security



deposit and rent, we disallowed another \$10,700 in costs for light fixtures, installation fees, car rental, a computer, an iPhone, electronic accessories, and other items associated with use of the California rental property.

We disallowed personal costs totaling \$32,359 that were incurred by the Executive Director and his wife, as follows:

- \$19,888 in non-allowable meal expenses;
- \$9,720 in student loan payments and tuition costs, including \$769 for the CPA review course taken by the son of the Executive Director; and
- \$1,482 in repair and maintenance expenses for landscaping services performed at the personal residence of the Executive Director. (The contractor stated that he neither heard of nor provided services to IncludED.); and
- \$1,269 in airline ticket charges, including \$632 for the Executive Director and his wife. (We could not determine the reason for the charges because no tickets, receipts, or other documentation was available for our review.)

We disallowed \$7,765 in personal costs pertaining to IncludED's Queens Division Director, as follows:

- \$7,490 for rent while she worked from home from July 2005 to June 2006. (The rent expenses were incurred during fiscal year 2005-06 and were claimed on the 2008-09 CFR.); and
- \$275 for home telephone expenses. (There was no documentation to show that these expenses were program-related.)

Also, during fiscal year 2008-09, IncludED provided cell phones to three office-based administrators who already had access to and use of office telephones. Thus, the provision of cell phones to these individuals was neither reasonable nor necessary. In addition, these individuals used their cell phones for personal reasons. Statements included charges for more than 10,000 night and weekend minutes and over 3,000 text/picture/video messages that were sent and/or received. Therefore, we disallowed \$2,743 in personal cell phone charges for these individuals.

### *Excessive Accounting Costs*

According to the Manual, costs associated with non-audit services provided by a registered public accounting firm (or any person associated with that firm), during or within 365 days of required audit work, are not reimbursable. Moreover, the Manual requires all claimed costs to be reasonable and necessary. We reviewed accounting costs of \$121,421 that were reported on the CFRs. We noted that IncludED received services from three accounting firms during the 2007-08 fiscal year and six accounting firms during the 2008-09 year. Multiple firms provided ostensibly the same services. In addition, some of these firms provided extensive non-audit services during or within 365 days of required audit work, and therefore, the costs for these services were ineligible for reimbursement. IncludED officials were unable to provide explanations for many of these services. Therefore, we allowed only those accounting costs directly related to the preparation

of IncludED's CFRs and its audited financial statements, and we disallowed costs totaling \$56,663.

### *Duplicate Claims for Expenses*

We disallowed \$34,377 in costs that were claimed twice on the CFRs. Specifically, we identified \$24,445 in educational costs and staff meeting expenses that were claimed twice. The balance of the duplicate claims pertained to payroll costs of \$9,932 that were charged to IncludED's Contracted Personal Services account and Agency Administration account as well.

### *Vehicle Expenses*

Vehicle usage must be documented with individual vehicle logs that include, at a minimum; the date and time of travel, places of departure and destination, mileage, purpose of travel, and the name of the traveler. IncludED reported the costs for five vehicles on its CFR. Four of the vehicles (an Infiniti G37, a Cadillac DeVille, a Honda Accord, and a Nissan Maxima) were registered to the Executive Director. The remaining vehicle, another Cadillac Deville, was owned by the husband of the Queens Division Director. In total, we disallowed \$34,213 in vehicle-related expenses because they did not comply with the Manual. Specifically, we disallowed \$22,111 because IncludED did not maintain the required vehicle logs or other documentation to support the business use of the vehicles. We also disallowed \$12,102 in vehicle expenses, such as parking fines and commuting costs, which are personal expenses that are not reimbursable.

### *Contracted Personal Services/Office Administration*

According to the Manual, the costs of contractors who provide services to approved programs are reimbursable provided the contractors are not officers or employees of the entity. In addition, payments to contractors must be supported by itemized invoices listing the services that were provided, the hourly fee, and the total amount charged. Moreover, when direct care services are provided, documents must list the names of students who were served, the actual dates of service, and the number of hours of service that were provided to each student. We disallowed \$31,090 in claimed costs because school officials did not comply with the Manual, as follows:

- For fiscal year 2007-08, we identified two contractors who were members of the Executive Director's family. The two individuals were not eligible to provide contracted services because they were already full-time salaried employees at IncludED. Also, for services provided by six other contractors, officials could not provide invoices or other documentation to support the services provided. Therefore, we disallowed \$14,607 in claimed costs pertaining to these contractors.
- For fiscal year 2008-09, we also identified four contractors who were members of the Executive Director's family. Two of these individuals were not eligible to provide contracted services because they were full-time salaried employees of IncludED. Further, IncludED officials were unable to provide invoices or other documentation to support these charges. Therefore, we disallowed \$16,483 in expenses that were claimed for these individuals.

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## Recommendation

To SED

- Review the exceptions identified by our audit and take all appropriate actions to recover the disallowed expenses.

## Audit Scope and Methodology

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We audited the costs reported by IncludED on its CFRs for the fiscal years ended June 30, 2008 and June 30, 2009. The objective of our audit was to determine whether the costs reported were properly calculated, adequately documented and allowable per the Manual.

To accomplish our objective, we reviewed IncludED's financial records, including audit documentation maintained by IncludED's independent certified public accountants. We interviewed IncludED officials and staff to obtain an understanding of their financial and business practices. We also interviewed IncludED's certified public accountants. In addition, we interviewed SED officials to obtain an understanding of the CFR as well as the policies and procedures contained in the Manual.

To complete our audit work, we reviewed supporting documentation for selected costs reported for the two programs in our audit scope, and we determined whether the costs complied with and were allowed by the Manual. We took into account the relative materiality and risk of the various costs reported by the school. To assess pertinent internal controls, we reviewed procurement and disbursement procedures related to certain personal service and other than personal service expenditures. We identified significant deficiencies in certain controls that were material to the audit's objectives. These are discussed in the appropriate sections of our audit report.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As is our practice, we advised IncludED officials at the outset of the audit that we would request a representation letter in which officials provide assurances, to the best of their knowledge, concerning the relevance, accuracy and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and reduce the likelihood of misunderstandings. Agency officials normally use the representation letter to assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. They also affirm either that the agency has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the financial reports and practices being audited, or that any exceptions have been disclosed to the auditors. However, IncludED officials did not provide

us with a representation letter in connection with this audit. As a result, we lack assurance from IncludED officials that all relevant information was provided to us during the audit.

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 management functions do not affect our ability to conduct independent audits of program performance.

## Authority

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The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1, of the State Constitution and Article II, Section 8, of the State Finance Law.

## Reporting Requirements

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We provided draft copies of this report to SED and IncludED officials for their review and formal comments. We considered SED's comments in preparing this report and have included them in their entirety at the end of it. In their response, SED officials agreed with our recommendation and indicated the actions they will take to recover the identified overpayments. IncludED officials did not respond to the draft report. They did, however, provide comments to the preliminary findings we provided to them during the course of our audit fieldwork. We considered those comments, as appropriate, in preparing this report.

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 recommendation contained herein, and if the recommendation was not implemented, the reasons why.

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## Contributors to This Report

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**Brian Mason**, Audit Director  
**Kenrick Sifontes**, Audit Manager  
**Stephen Lynch**, Audit Supervisor  
**Tania Zino**, Examiner-in-Charge  
**John Ames**, Staff Examiner  
**Jonathan Bernstein**, Staff Examiner  
**David DiNatale**, Staff Examiner  
**Joseph Gillooly**, Staff Examiner  
**Hugh Zhang**, Staff Examiner  
**Stacy Marano**, OSC Investigations  
**Raymond Russell**, OSC Investigations

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## Division of State Government Accountability

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Andrew A. SanFilippo, Executive Deputy Comptroller  
518-474-4593, [asanfilippo@osc.state.ny.us](mailto:asanfilippo@osc.state.ny.us)

Elliot Pagliaccio, Deputy Comptroller  
518-473-3596, [epagliaccio@osc.state.ny.us](mailto:epagliaccio@osc.state.ny.us)

Jerry Barber, Assistant Comptroller  
518-473-0334, [jbarber@osc.state.ny.us](mailto:jbarber@osc.state.ny.us)

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### 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

**IncludED Educational Services  
Schedule of Submitted, Disallowed, and Allowed Program Costs  
For Fiscal Years 2007-08 and 2008-09**

Costs	Amount Per CFR	Amount Disallowed	Amount Allowed	Notes to Exhibit
Personal Services	\$5,774,175	\$1,204,285	\$4,569,890	A,Q,R
Other Than Personal Services	\$4,510,862	\$249,485	\$4,261,377	A,Q,S,X
Administrative*	\$2,277,950	\$1,180,741	\$1,097,209	A - Z
<b>Total Program Costs</b>	<b>\$12,562,987</b>	<b>\$2,634,511</b>	<b>\$9,928,476</b>	

\* Includes both personal and other than personal services costs.

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## Notes to Exhibit

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The Notes shown below refer to specific sections of the Reimbursable Cost Manual upon which we have based our adjustment. We have summarized the applicable section to explain the basis for the disallowance. Details of the transactions in question were provided to SED and IncludedED officials during the course of our audit.

- A. Section I - Costs must be reasonable, necessary, program related and sufficiently documented.
- B. Section I.3.D - Advertisements should not include: Information which would indicate that services are “free” since services are paid through local and state funds.
- C. Section I.15.A (3) - Paid consultants providing services to approved programs for students with disabilities are not officers or employees of the entity, employees of the State Education Department, employees of municipalities, or employees of other private schools whose positions are funded wholly or in part by State or local taxpayer funds.
- D. Section I.15.E - Fringe Benefit costs for Independent Contractors and Consultants are not reimbursable.
- E. Section I.15.F - Costs associated with non-audit services provided by a registered public accounting firm or any person associated with that firm, during or within 365 days of required audit work (prior to the beginning of the fiscal period being audited or after the date of the audit report issued for the audit period), are not reimbursable.
- F. Section I.17 - Political and charitable contributions made by the company are not reimbursable.
- G. Section I.18.A (8) - If assets are shared by more than one program and/or entity, the share of depreciation expense allocated to programs funded pursuant to Articles 81 or 89 shall be based on documented and reasonable criteria.
- H. Section I.21.A - Costs incurred for entertainment of officers or employees, or for activities not related to the program, or any related items such as meals, lodging, rentals, transportation, and gratuities, are not reimbursable.
- I. Section I.21.B - All personal expenses, such as personal travel expenses, laundry charges, beverage charges, gift certificates to staff and vendors, flowers or parties for staff, holiday parties, repairs on a personal vehicle, rental expenses for personal apartments, etc., are not reimbursable unless specified otherwise in this Manual.
- J. Section I.22 - Costs resulting from violations of, or failure by, the entity to comply with Federal, State, and/or local laws and regulations, are not reimbursable.
- K. Section I.23.C - Costs of food provided to any staff including lunchroom monitors are not reimbursable.
- L. Section I.30 (3) - Costs for food, beverages, entertainment and other related costs for meetings, including Board meetings, are not reimbursable.
- M. Section I.30 (6) - Documentation to support the cost of meetings and conferences must include the names and job titles of staff that attended and the program(s) served by each staff person.
- N. Section I.55.A - Costs incurred for telephone service, local and long distance telephone calls, electronic facsimiles (FAX) and charges for cellular telephones, etc., are reimbursable provided that: 1) They pertain to the special education program; and 2) Long distance telephone or message charges are documented by monthly bills and proof of payment are directly attributable to the Article 81 and Article 89 funded programs.



- O. Section I.55.B - Long distance telephone charges and all cell phone charges that are not properly documented will not be reimbursed.
- P. Section I.57.D - Costs of personal use of a program-owned or leased automobile are not reimbursable. The costs of vehicles used by program officials, employees or Board members to commute to and from their homes are not reimbursable.
- Q. Section II.A - Costs will not be reimbursable on field audit without appropriate written documentation of costs.
- R. Section II.A (1) - Compensation costs must be based on approved and documented payrolls. Payrolls must be supported by employee time records prepared during, not after, the time period for which the employee was paid. Employee time sheets must be signed by the employee and a supervisor, and must be completed at least monthly.
- S. Section II.A (3) - All payments to contractors must be supported by itemized invoices which indicate the specific services actually provided; and for each service, the date(s), number of hours provided, the fee per hour; and the total amount charged. In addition, when direct care services are provided, the documentation must indicate the names of students served, the actual dates of service, and the number of hours of service to each child on each date.
- T. Section II.A (4) - All purchases must be supported with invoices listing items purchased and indicating date of purchase and date of payment, as well as canceled checks. Costs must be charged directly to specific programs whenever possible. The particular program(s) must be identified on invoices or associated documents.
- U. Section II.A (5) - Logs must be kept by each employee indicating dates of travel, destination, purpose, mileage, and related costs such as tolls, parking and gasoline and approved by supervisor to be reimbursable.
- V. Section II.A (10) - Vehicle use must be documented with individual vehicle logs that include at a minimum: the date, time of travel, to and from destinations, mileage between each, purpose of travel and name of traveler. If the vehicle was assigned to an employee, also list the name of the employee to whom it was assigned.
- W. Section II.B (1) - Entities operating programs must maintain accounts in accordance with generally accepted accounting principles and section 200.9 (d) of the Commissioner's Regulations.
- X. Section II.B (2) - The accrual basis of accounting is required for all programs receiving Article 81 and Article 89 funds.
- Y. Section II.C (1b) - Program and fiscal issues that require prior written approval of the Commissioner's designees include but are not limited to: 1) Education program expansion requiring additional staff, property related costs, classroom equipment, etc. when the cost is expected to be reimbursed fully or partially through the tuition rate. Both program and fiscal designee written approval are required; 2) New or renovated facility space, both instructional and non-instructional to be occupied by approved programs including costs associated with such space. Both program and fiscal designee written approval are required.
- Z. Section II.C (10) - A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

# Agency Comments

05/25/2012 FRI 08:56 FAX

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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

May 24, 2012

Mr. Brian Mason  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236

Dear Mr. Mason:

The following is the New York State Education Department's (SED) response to the draft audit report (2010-S-59) of the State Education Department: IncludEd Educational Services Compliance with the Reimbursable Cost Manual.

**Recommendation 1:**

**Review the exceptions identified by our audit and take all appropriate actions to recover the disallowed expenses.**

We agree with this recommendation. The Department will review and make adjustments to the CFR as noted in the report which identified total disallowances of \$2,634,511 during 2007-08 through 2008-09. The Department will also recover any overpayments as appropriate by recalculating tuition rates. This will entail additional discussion with the Office the State Comptroller's auditors and review of auditor's worksheets to determine the impact of adjustments on each year and each program operated by IncludEd since this has not specifically been identified in the report. We will also review and consider additional information IncludEd may submit in response to this report. It should be noted that as of April 1, 2011, IncludEd ceased operating.

If you have any questions regarding this response, please contact Ann Marsh, Director of the Rate – Setting Unit at (518) 473-2020.

Sincerely,

*Sharon Cates-Williams*  
Sharon Cates-Williams

c: Ann Marsh