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

Division of State Government Accountability

Compliance With the Reimbursable Cost Manual

State Education Department
Dynamic Center Inc.

Report 2014-S-3 December 2014

Executive Summary

Purpose

To determine whether the costs submitted by Dynamic Center Inc. on its Consolidated Fiscal Report were properly calculated, adequately documented, and allowable under the State Education Department's guidelines, including the Reimbursable Cost Manual. The audit covered the fiscal year ended June 30, 2012.

Background

Dynamic Center Inc. (Dynamic) is a State Education Department (SED)-approved special education provider located in Florida, New York. Dynamic provides preschool Special Education Itinerant Teacher (SEIT) services to children with disabilities between the ages of three and five years. Dynamic is reimbursed for SEIT Program services through rates set by SED. Dynamic's reimbursement rate is based on financial information, including costs, it reports to SED on its annual Consolidated Fiscal Report (CFR). Costs reported on the CFR must comply fully with the guidelines in SED's Reimbursable Cost Manual (RCM) regarding the eligibility of costs and documentation requirements. For the fiscal year ended June 30, 2012, Dynamic reported approximately $1.1 million in reimbursable costs on its CFR for the SEIT Program.

Key Findings

- Dynamic reported $420,953 in non-reimbursable costs for the SEIT Program for the year ended June 30, 2012. This included $316,020 in personal service costs and $104,933 in other-than-personal-service (OTPS) 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 the RCM.
- For instance, Dynamic's CFR claimed personal service costs that lacked supporting documentation for hours worked and fringe benefit expenses that were miscalculated. We also identified non-reimbursable OTPS expenses that included gifts, food for staff, holiday parties, and personal expenses such as personal laundry and phone service costs.
- We identified several record-keeping weaknesses corresponding to the expenses reported by Dynamic on its CFR.

Key Recommendations

To SED:

- Review the disallowances identified by our audit and adjust Dynamic's CFRs and tuition reimbursement rates, as appropriate.
- Remind Dynamic officials of the pertinent SED guidelines that relate to the deficiencies we identified.

To Dynamic:

- Ensure that costs reported on annual CFRs fully comply with SED's requirements and communicate with SED to get clarification as needed.

Other Related Audits/Reports of Interest

Bilinguals Inc.: Compliance With the Reimbursable Cost Manual (2012-S-65)
LaSalle School: Compliance With the Reimbursable Cost Manual (2012-S-68)

State of New York
Office of the State Comptroller

Division of State Government Accountability

December 29, 2014

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

Ms. Robin Seccafico
Executive Director/President
Dynamic Center Inc.
PO Box 195
Florida, NY 10990

Dear Dr. King and Ms. Seccafico:

The Office of the State Comptroller is committed to providing accountability for tax dollars spent to support government-funded 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 the expenses submitted by Dynamic Center Inc. to SED for purposes of establishing the preschool special education tuition reimbursement rates used to bill public funding sources that are supported by State aid payments entitled *Compliance With the Reimbursable Cost Manual*. This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, Article II, Section 8 of the State Finance Law, and Section 4410-c of the State Education Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this draft report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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This report is also available on our website at: www.osc.state.ny.us

Background

Dynamic Center Inc. (Dynamic) is a for-profit S corporation located in Florida, New York that provides a range of special education services to preschool students and their families. During our audit period, Dynamic had about 157 students, and delivered services either on-site at its five "brick-and-mortar" locations or, as with its preschool Special Education Itinerant Teacher (SEIT) Program, within the community (e.g., the child's home or nursery school). During the audit period, Dynamic was managed by an Executive Director, who was also the sole owner, and employed a staff of more than 100 permanent and contracted employees, including 46 teachers and 20 administrative employees who worked for the SEIT Program.

Dynamic is reimbursed for services through rates set by SED for the SEIT Program. Dynamic's reimbursement rate is based on the expenses it reports to SED on its annual Consolidated Fiscal Report (CFR), which all providers are required to submit each year. Costs reported on the CFR must comply fully with the guidelines in SED's Reimbursable Cost Manual (RCM) regarding the eligibility of costs and documentation requirements, and meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). In general, costs claimed for reimbursement must be reasonable, necessary, program-related, and supported by documentation (e.g., employee time sheets, detailed invoices, vehicle logs). Personal costs and other expenses that are not related to the educational programs are not eligible for reimbursement. For the fiscal year ended June 30, 2012, Dynamic claimed approximately $1.1 million as reimbursable costs for the SEIT Program.

Audit Findings and Recommendations

Of the $1.1 million Dynamic claimed on its CFR for SEIT Program costs, we determined $420,953 was ineligible for reimbursement. This included $316,020 in personal service costs and $104,933 in other-than-personal-service (OTPS) costs that were either undocumented or unsupported, not related to the SEIT Program, personal in nature, incorrectly calculated or allocated to the SEIT Program, or otherwise not allowable per the RCM. Additionally, during the course of our audit, we identified several record-keeping weaknesses that Dynamic must correct to improve its compliance with requirements prescribed by the RCM.

Personal Service Costs

During the fiscal year ended June 30, 2012, Dynamic reported $947,529 in reimbursable personal service and fringe benefit costs for the SEIT Program. Of this amount, we identified disallowances totaling $316,020, which included personal service expenses paid to employees that lacked the required supporting documentation for hours worked and fringe benefit expenses that either were non-allowable or were miscalculated on Dynamic's CFR.

Personal service costs reported on the CFR must comply fully with the guidelines in the RCM regarding the eligibility of costs and documentation requirements and meet the reporting requirements prescribed in the CFR Manual. Specifically, personal service costs, which include all taxable salaries and fringe benefits paid or accrued to staff, must be reported on the CFR as either direct care costs (such as teachers' salaries) or non-direct care costs (such as administrators' salaries). According to the RCM, reported costs should be reasonable, necessary, program-related, and properly documented. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid, and the salaries of individuals who do not work solely for a single program must be allocated based on their actual work effort or other reasonable allocation method. Employee time sheets must be signed by both the employee and a supervisor. Costs will not be reimbursable on field audit without appropriate written documentation of costs.

Personal Service

On its CFR for the fiscal year ended June 30, 2012, Dynamic reported personal service expenses for the SEIT Program totaling $851,233. Of this amount, we identified disallowances totaling $279,020 that were not supported by time sheets or other documentation and thus were not in compliance with the RCM.

Dynamic's CFR separately reports the direct personal service expenses of 46 teachers and 8 administrative part-time employees who worked only for the SEIT Program from the indirect personal service expenses of 12 full-time employees who worked for the SEIT Program and other programs operated by Dynamic as well. Indirect personal service expenses are allocated to programs using the ratio-value methodology as required by the CFR Manual. The RCM states compensation costs must be based on approved, documented payrolls and be supported by employee time records, which must be signed by the employee and supervisor. The RCM further states that actual hours of service are the preferred statistical basis upon which to allocate salaries for shared staff who work on multiple programs. Entities must maintain appropriate documentation reflecting the hours used in this allocation such as time studies.

We found Dynamic required time sheets only for its SEIT teachers and part-time administrative employees, but not for its 12 full-time administrative employees. Based on the available time sheet data, we determined that Dynamic's claimed compensation costs exceeded the documented hours worked. We therefore disallowed $221,857 for the undocumented work hours as well as an additional $57,163 in compensation payments not supported by time sheets or time studies documenting Dynamic's allocations of personal service costs to the SEIT Program.

Fringe Benefits

For the fiscal year ended June 30, 2012, Dynamic allocated costs totaling $96,296 to the SEIT Program for mandated and non-mandated fringe benefits. Of this amount, we determined $37,000 ($28,960 in mandated and $8,040 in non-mandated fringe benefit costs) were not in compliance with the RCM.

Various laws require employers to pay for mandated fringe benefits (e.g., contributions for Social Security, Workers Compensation, Unemployment Insurance, and New York State Disability Insurance), and their reimbursement value is based on personal service costs. Non-mandated fringe benefits include the costs of employer contributions for discretionary benefits, such as health and dental insurance, life insurance, and vehicle allowances. In order to be reimbursed for non-mandated fringe benefits, providers must follow guidelines established in the RCM. For instance, according to the RCM, non-mandated fringe benefits for individual employees or officers/directors are to be proportionately similar to those received by other classes or groups of employees.

The disallowance of $28,960 in mandated fringe benefit costs pertains to the personal service cost disallowance discussed in the prior section. Because Dynamic overstated the direct and indirect personal service costs of the SEIT Program and payroll taxes are based on personal service costs, the related mandated fringe benefit costs were likewise overstated. Also, we identified disallowances of $8,040 in non-mandated fringe benefit costs for life insurance, health insurance, and vehicle expenses that the Executive Director provided for herself and another executive, but not for all other employees, as otherwise required by the RCM.

In response to our findings, Dynamic officials stated that the life insurance benefit has been discontinued and other non-mandated fringe benefit expenses will not be charged to the SEIT Program.

Other-Than-Personal-Service Costs

For the fiscal year ended June 30, 2012, we identified $104,933 in OTPS costs that were ineligible for reimbursement. We determined the expenses were not reasonable, necessary, or program-related, and many expenses were not supported by any documentation. We also identified personal expenses (e.g., utility, phone service, and personal laundry costs) that were improperly claimed as SEIT Program expenses and expenses that were overstated on the CFR.

The RCM prescribes OTPS costs that are eligible for reimbursement and the documentation required to properly support them for reporting on the CFR. Reported costs should be reasonable, necessary, program-related, and properly documented, with, for example, detailed invoices (listing items purchased, date of purchase, and date of payment) and canceled checks, record-keeping logs, and contracts. Costs must be charged directly to specific programs whenever possible, and the particular program must be identified on the invoices or associated documents. Personal costs (e.g., personal travel, personal laundry, food for staff, gifts, holiday parties, and personal vehicle repairs) are not eligible for reimbursement per the RCM.

"Other" Expenses

Dynamic reported a total of $38,449 in "Other" expenses on its CFR, including computer and website expenses, bank service charges, taxes, printing and reproduction costs, and postage and shipping charges. Of this amount, we identified $21,724 in non-reimbursable costs that were either unsupported, not related to the SEIT Program, or calculated incorrectly.

As discussed previously, the RCM states all purchases must be supported with invoices listing items purchased, including date of purchase and date of payment, as well as canceled checks. We identified $9,291 in expenses that were not supported with an invoice.

We found Dynamic overstated expenses by $12,125, including $7,023 for its Metropolitan Commuter Transportation Mobility Tax, which Dynamic miscalculated by including nine quarters of tax payments for the fiscal year instead of four quarters; and $5,102 in "Other" expenses that Dynamic also accounted for elsewhere on its CFR, under "Supplies." We also identified $308 in non-reimbursable expenses for parking violations and non-program-related computer support expenses.

Supplies and Materials

Dynamic reported supply and material costs totaling $26,516 on its CFR. Based on RCM requirements discussed previously, we identified disallowances of $18,525, which included $15,687 in expenses that were not supported with an invoice; $2,649 in costs for food and other items that were not SEIT Program-related; $128 in unnecessary expenses (e.g., late fees and finance charges due to late payments to vendors); and $61 for personal laundry expenses.

Dynamic officials initially told us the laundry was a personal cost and inadvertently included it with business expenses. Subsequently, they purported that the laundry expenses were incurred for cleaning Dynamic's banner. However, Dynamic was unable to provide documentation to support this assertion.

Staff Travel

As with all expenses claimed for reimbursement, the RCM requires that travel-related costs be reasonable, necessary, program-related, and properly documented with invoices. In addition, reimbursement of vehicle expenses is contingent on the vehicle operator maintaining vehicle logs (e.g., dates of travel, destination, purpose, mileage) to verify business versus personal usage. In addition, no personal expenses or food for anyone other than students may be reimbursed. On its CFR, Dynamic claimed $16,048 for SEIT Program-related travel expenses. Of this amount, we identified $15,958 in disallowances, as follows:

- $13,646 in travel expenses that were not supported with an invoice or vehicle log;
- $711 for an unrelated Dynamic operation located in New York City;
- $840 in food supplied for Christmas parties, meetings, and staff dinners;
- $541 in duplicated car insurance expenses, which were double-entered on the CFR;
- $165 in personal expenses; and
- $55 in unnecessary expenses, including gifts and parking violation fines.

Real Property Leases

According to the RCM, rental agreements, including renewals, must be in writing and dated and signed by both the lessee and the lessor. Also, rental costs of buildings are reimbursable under the condition that occupancy costs are based on actual documented rental charges and are properly supported (e.g., by bills, vouchers). Dynamic reported a total of $35,220 in real property lease costs on its CFR. Of this amount, we identified $13,932 in disallowances that included $11,682 in rent expenses that were not supported by a monthly invoice and/or a signed lease agreement and $2,250 in costs incurred for Dynamic's Albany office location (which was not used for SEIT Program purposes).

Working Capital Interest

The RCM requires that providers file their CFR timely, and a late filing of more than 90 days will result in a complete disallowance of working capital interest expense. Dynamic is required to file its annual CFR in October of each year, but failed to file its CFR for fiscal year ended June 30, 2012 until December 2013, which was 14 months after the deadline. Consequently, Dynamic's claim of $8,886 in working capital interest is not eligible for reimbursement.

Telephone Expenses

Dynamic reported $11,917 in telephone expenses for the SEIT Program on its CFR. Of this amount, we identified disallowances totaling $7,530, including $5,696 in telephone expenses not supported by invoices, $1,017 in cell phone data and Internet plan costs, which the RCM states are not reimbursable, and cell phone charges that Dynamic could not show directly benefited the SEIT Program. The remaining disallowance of $817 included telephone expenses incurred for the Executive Director's non-business-related land-line phone service; land-line telephone service for Dynamic's Albany office (not used for SEIT purposes); and charges that Dynamic erroneously accounted for twice in its general ledger.

Depreciation of Vehicle, Equipment, and Leasehold Improvements

Dynamic reported $6,990 in vehicle, equipment, and leasehold improvement depreciation attributable to the SEIT Program, $5,495 of which we determined was not in compliance with provisions in the RCM. According to the RCM, in order to be reimbursed, providers must maintain (1) vehicle logs documenting all vehicle costs; (2) inventory records, including invoice, description, cost, and date of purchase; (3) building improvement records, including the date the work was completed, a description of the improvement, the location, the costs, and the program's benefits; and (4) program allocation records for other types of leasehold improvements that are depreciated. We identified $5,495 in disallowances based on our testing of depreciation costs associated with Dynamic's four assets with the highest historical costs. Specifically, we disallowed $3,403 for vehicle depreciation expenses not supported by a vehicle log and $2,092 for expenses not supported by cost documentation for the depreciated assets.

Consulting, Audit, and Legal Expenses

According to the RCM, providers must maintain adequate documentation for hired consultants and their expenses, which includes, but is not limited to, consultants' résumés and written contracts detailing the nature of services, charge per day, and service dates. Dynamic reported a total of $13,566 in consulting, audit, and legal expenses. Of this amount, we identified disallowances totaling $7,114, which included: $4,333 for consulting services where either Dynamic could not produce a contract or the contract did not include any information regarding contractor deliverables or the need for the services; and $2,781 for audit and legal expenses that lacked the required documentation or were improperly recorded on the CFR from prior accounting periods.

Miscellaneous Expenses

Dynamic reported a total of $9,927 in miscellaneous other expenses. Of this amount, we identified $5,769 in disallowances, as detailed as follows.

- Repairs and Maintenance: $3,273 in undocumented expenses not supported with invoices and $186 for personal dry cleaning expenses;
- Utilities: $1,721 in expenses that were either not documented, not SEIT Program-related (including $1,064 in expenses for the Executive Director's residence and other locations), or not necessary (e.g., late fees); and
- Insurance: $589 in expenses that were claimed twice on the CFR.

Non-Compliance With Record-Keeping Requirements

We observed wide-ranging non-compliance with documentation and record-keeping requirements prescribed by the RCM.

Subsidiary Accounts

The RCM requires that a provider's general ledger contain subsidiary revenue and expenditure accounts for each approved program requiring a tuition rate. We found Dynamic's books were not in compliance because its general ledger did not contain these subsidiary accounts. Dynamic used 227 different accounts to record transactions in the general ledger. However, subsidiary accounts providing the details for the balance reported in the general ledger were not maintained for Dynamic's programs, including the SEIT Program. As a result, costs were not accurately segregated among Dynamic's various programs and, thus, Dynamic erroneously claimed non-SEIT Program costs for reimbursement on its CFR.

Dynamic officials stated they will make an effort to maintain subsidiary accounts for the SEIT Program.

Time Sheets

The RCM has specific requirements for payroll expenses:

- Payroll costs must be supported by employee time and attendance records prepared during (not after) the time period for which an employee was paid.
- Time sheets must be signed by the employee and supervisor and must be completed at least monthly.
- The provider may support the allocation of payroll expenses with time studies if time sheets are not maintained.

As previously noted, we found Dynamic did not maintain time sheets for full-time administrative staff during the period July 1, 2011 to June 30, 2012, nor did they maintain time studies. Furthermore, although SEIT teachers and part-time employees were required to complete time sheets, the time sheets were not signed by the employee or approved by a supervisor. As a result, we had no assurance that approximately $300,000 in personal service costs were paid for hours actually worked or that these costs were allocated to the correct program.

Dynamic officials stated that, going forward, they plan to document work hours and employees will fill out time sheets, sign them, and have them approved by a supervisor.

Employee Agreements

According to the RCM, entities operating approved programs shall develop employer-employee agreements with written salary scales and issue them to employees. We found that Dynamic was not in compliance with this requirement. Of the 66 employee files we requested for review, Dynamic provided files for 53 of them. Of the 53 employee files, 27 had the required employer-employee agreements, and none of the 53 had the required written salary scale. Because of its poor record keeping and failure to comply with the RCM, Dynamic officials cannot adequately ensure or support that employees were employed and appropriately compensated.

Dynamic officials acknowledged they could not produce the files and/or records in question. Officials also indicated, however, that they will comply with the RCM and utilize written salary scales and maintain the required files for all employees in the future.

Inventory Records

The RCM requires that providers maintain perpetual fixed asset inventory records and invoices for all furniture and equipment purchases for special education programs. These records should include invoice number; a description of the item; make, model, or serial number; the cost and date of purchase; and, if applicable, the program using the asset and the location. We determined Dynamic's fixed asset inventory record policy did not meet the minimum requirements established by the RCM. Inventory records showed only the date of purchase, the cost, and a very general description of the asset. For example, one tested asset was labeled as "equipment" on Dynamic's fixed asset list. When we questioned this item, Dynamic officials were unable to identify what the "equipment" was or where it was located.

Vehicle Logs

Dynamic claimed expenses for three company vehicles during our audit period, including two vehicles assigned to the Executive Director and the Vice President. The RCM states that vehicle logs must be maintained to document fuel charges, mileage, and repair costs for all program-owned vehicles. The RCM also requires that vehicle use must be documented with individual vehicle logs that include at a minimum the date, time of travel, start location and destination, mileage between each, purpose of travel, and the name of the traveler. We determined that from July 1, 2011 to June 30, 2012, Dynamic did not maintain vehicle log policies or procedures (or otherwise require employees to document vehicle use) and, thus, had limited assurance that company vehicles were not used for personal use. As mentioned previously, we disallowed Dynamic's vehicle and related expenses because the provider did not maintain proper vehicle logs supporting their use for program-related purposes.

Dynamic officials stated that, going forward, they will institute a vehicle log policy.

Consultant Contracts

The RCM requires that adequate documentation for consultants include the consultant's résumé and a written contract that includes the nature of services, charge per day, and service dates. Also, the entity must maintain Request for Proposals or other documentation of competitive bidding to ensure that the most economical and/or appropriate consultant available for a particular service was used. Dynamic did not have any policies or procedures in place to ensure compliance with the RCM's requirements and, in fact, did not have the required documentation for many of their consultants.

Supporting Documentation

According to the RCM, all purchases must be supported with invoices listing the items purchased and indicating the date of purchase and payment. As mentioned previously, Dynamic could not produce adequate documentation for some of their OTPS expenses. As a result, there is limited assurance that expenses claimed on the CFR are proper, program-related, and correct.

Dynamic officials stated that, going forward, they will ensure all expenses are properly documented.

Recommendations

To SED:

1. Review the disallowances identified by our audit and adjust Dynamic's CFRs and tuition reimbursement rates, as appropriate.

2. Remind Dynamic officials of the pertinent SED guidelines that relate to the deficiencies we identified.

To Dynamic:

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements and communicate with SED to get clarification as needed.

Audit Scope and Methodology

We audited the expenses submitted by Dynamic on its CFR for the fiscal year ended June 30, 2012. The objective of our audit was to determine whether the costs submitted by Dynamic on its CFR were properly calculated, adequately documented, and allowable under SED's guidelines, including the RCM.

To accomplish our objective and assess internal controls related to our objective, we interviewed SED officials and obtained an understanding of the CFR as well as the policies and procedures contained in the RCM and the CFR Manual. We interviewed Dynamic officials and staff to obtain an understanding of their financial practices relating to the expenses reported on its CFR. We also interviewed the CPA firm that Dynamic used to prepare its CFR and financial statements. We also reviewed Dynamic's financial records and reviewed supporting documentation of the expenses reported by Dynamic on its CFR.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members (some of whom have minority voting rights) to certain boards, commissions, and public authorities. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, Article II, Section 8 of the State Finance Law, and Section 4410-c of the State Education Law.

Reporting Requirements

We provided a draft copy of this report to SED and Dynamic officials for their review and formal comment. We considered SED's and Dynamic's comments in preparing this report and have included them in their entirety at the end of it. In their responses, SED and Dynamic officials concurred with our recommendations and indicated that certain actions have been and will be taken to address them.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Education shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and if the recommendations were not implemented, the reasons why.

Contributors to This Report

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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

Dynamic Center Inc.
Schedule of Submitted, Disallowed, and Allowed SEIT Program Costs
Fiscal Year 2011-12

SEIT Program Costs	Amount Per CFR	Amount Disallowed	Amount Allowed	Notes to Exhibit
Personal Services	$947,529	$316,020	$631,509	A,B,C
Other Than Personal Services	$170,693	$104,933	$65,760	C - P
Totals	**$1,118,222**	**$420,953**	**$697,269**	

Notes to Exhibit

The Notes shown below refer to specific sections of the RCM and CFR 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 Dynamic officials during the course of our audit.

A. RCM Section III.1.A and B – Compensation costs must be based on approved, documented payroll. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid and the employee time sheets must be signed by the employee and a supervisor; the time sheets must be completed at least monthly. Actual hours of service are the preferred statistical basis upon which to allocate salaries and fringe benefits for shared staff who work on multiple programs.
B. CFR Manual Appendix L, Section 45.0 – All personnel who work in more than one program should allocate their salary based on actual time and attendance records. If this does not occur, the provider must complete a time study. The RCM provides minimum standards for these time studies.
C. CFR Manual Appendix I, Section 42.0 – Providers should make every attempt to directly charge expenses to the appropriate programs. When unable to charge expenses directly to a specific program, indirect costs will be allocated.
D. RCM Section II.14.B.(2)c – Reimbursement for non-mandated fringe benefits provided to officer/directors must be proportionately similar to those benefits received by other classes or groups of employees.
E. RCM Introduction – Final costs are determined upon field audit and will be considered for reimbursement provided that such costs are reasonable, necessary, and directly related to the education program … and have adequate substantiating documentation.
F. RCM Section III.1.D – 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 document.
G. RCM Section II.21.A and B and 23.C, 22, 25 – Costs incurred for activities not related to the program or any related items such as meals are not reimbursable. Costs of personal travel expenses, laundry charges, food, beverages, gift, parties, repairs of personal vehicles, and rental expense for personal apartments are not reimbursable. Costs of food provided to staff, fines and gifts are not reimbursable.
H. RCM Section II.59.D.(1),(5) and Section III.1.E and J(1), (2) – Costs of personal use of a program-owned or leased vehicle are not reimbursable. Vehicle cost and usage records must be maintained. Vehicle use must be documented with vehicle logs that include at minimum: the date, time of travel, destinations, mileage and purpose of travel; logs must be maintained to document fuel charges, mileage and repair costs for all program-owned vehicles. These vehicle logs must also be approved by a supervisor.
I. RCM Section II.42.A and B.(2) – Leases must be in writing, dated and signed. The charges paid must be supported by bills or vouchers.
J. RCM Section II.29.D.(3) – Working capital interest expense will not be reimbursed to entities filing their CFR more than 90 days after the due date.

K. RCM Section II.57.C – Cell phone charges for data packages and/or internet access are not reimbursable.
L. CFR Manual Appendix O, Section 48 – A depreciation schedule must be maintained that includes at minimum a description of the asset, the date acquired and the cost and should include assets costing more than $5,000 and having a useful life of 2 years or more.
M. RCM Section III.1.C.(2) and (3) – A written contract including the nature of services to be provided, the charge per day and the service dates, and the consultant's résumé are considered adequate documentation. Payments must be supported by itemized invoices, which indicate the specific service, the date, the hours, the fee per hour and the total amount charged. Requests for Proposals (RFP) or other bidding documents must be kept, as the entity will need to justify that the consultant hired was the most economical.
N. RCM Section III.2.C – Subsidiary accounts shall be maintained for, but not limited to, each approved program.
O. RCM Section II.14.A.(1) – Employer employee agreements with written salary scales shall be issued to employees.
P. RCM Section III.1.I and L – Equipment and furniture inventory records, including the invoice, must be kept and should list the invoice number, item description, the make, model, or serial number, cost, date of purchase, location and program using the item. Similarly, building improvement records must include a description of the improvement, the date the work was completed, the cost, location and program that benefitted. Detailed bills are acceptable records.

Agency Comments - State Education Department

THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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December 22, 2014

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Albany, NY 12236

Dear Ms. Inman:

The following is the New York State Education Department's (SED) response to the draft audit report, (2014-S-3), Compliance with the Reimbursable Cost Manual: Dynamic Center Inc.

Recommendation 1: Review the disallowances identified by our audit and adjust Dynamic's CFRs and tuition reimbursement rates, as appropriate.

We agree with this recommendation. The Department will review the recommended disallowances as noted in the report and make adjustments to the reported costs to recover any overpayments, as appropriate, by recalculating tuition rates.

Recommendation 2: Remind Dynamic officials of the pertinent SED guidelines that relate to the deficiencies we identified.

We agree with this recommendation.

If you have any questions regarding this response, please contact Suzanne Bolling, Director of Special Education Fiscal Services at (518) 474-3227.

Sincerely,

Sharon Cates-Williams

Sharon Cates-Williams

c: James P. DeLorenzo
Suzanne Bolling
Maria Guzman

Agency Comments - Dynamic Center Inc.

DYNAMIC CENTER, INC.
"SPECIALISTS IN EARLY CHILD DEVELOPMENT & INTERVENTIONS"

www.dynamictherapy.org

December 15, 2014

Judy Grehl
State Program Examiner-in-Charge
NYS OFFICE OF THE STATE COMPTROLLER
Division of State Government Accountability
123 William Street - 21st Floor
New York, NY 10038-0001

Dear Judy:

I have reviewed the audit draft report. We have made the proper corrections according to the reimbursable cost manual.

Sincerely,

Robin Seccafico
President/Owner
Dynamic Center, Inc

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