

# OSC 2017 Annual Report on Preschool Special Education Audit Initiative

Education Committee Meeting – February 14, 2018  
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# Preschool Audit's - Status

- Chapter 545 of the Laws of 2013 requires that the State Comptroller will audit the expenses reported to SED by every program provider of special education services for preschool children with disabilities at least once by **March 31, 2018** “subject to the funding made available by the Legislature for such purpose”
- As of December 2017 – OSC has completed 112 audits
- 23 in 2017
- 15 audits in progress - 6 IAC Preschools are currently under audit.
- 12 IAC Preschools have completed OSC Audits – close to 30 preschools have yet to be audited.

# Positive News?

- In the past, OSC's audits of expenses submitted to SED by certain special education providers identified widespread, mismanagement and blatant misuse of public funds intended for the education of children with disabilities, as well as outright fraud.
- However, in the 2017 report, for the first time the comptroller acknowledges that the most recent audits “indicate there continue to be serious errors in cost reporting by the preschool special education providers to SED.”

# Audit Findings

- OSC reports indicates that the total disallowances from the 23 audits amounted to \*12.5 million dollars or 2.76% of reported costs. (*\*It appears the comptroller carried over disallowance costs that were reported in the totals from the previous year – included in the 2016 report were disallowances of 6,013,365 from “additional audits completed but not issued.” These audits were then reported as individual preschool disallowances in 2017– therefore they were counted twice in the disallowances.*)
- 2015- 10 Million dollars in disallowances
- The percentage of disallowance of reported CFR Costs has decreased each year from a high of 7.6% in 2014, 3.3% in 2015, 2.91% in 2016 and the lowest of 2.76% in 2017.

# Audit Findings

- REMEMBER – Audit disallowances do not reflect actual recoupment of money. Only SED can recoup money/adjust tuition rates
- Many of the disallowances – already identified by SED
- Provider reported the cost as non-reimbursable on the CFR but OSC included as a disallowance.

# Summary of Findings – Pgs. 7-11 in the Audit Report

## Personal Service – Related Filings

- **Unsupported or ineligible payroll expenses** (9 of 23 providers) – 39% of the audits had issues with the maintenance of payroll and time distribution documentation. 15 out of 23 audits identified payroll costs from other programs charged to preschool programs. (65% of all of the audits in 2017)  
(RCM requires that salaries of employees who perform tasks for more than one program be allocated among all programs)
- **Unsupported Bonuses** – (11 of 23 Providers) – Bonuses failed to be in compliance with the RCM requirements (Merit based and supported by performance evaluations.)

# Other than Personal Services (OTPS)

- **Unsupported Ineligible Costs** – findings of ineligible expenses, not program related of inadequate documentation) – 19 out of 23 – (83% of all audits had disallowances for this.)
- **Vehicles** – 6 out of 23 (26% of audit) – program related and documented – vehicle logs (date, time and purpose, destination, mileage and names of person using the vehicle)
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- **Travel** 10 out of 23 – (program related and documented)
- **\*Expenses of a personal nature** – Costs claimed for staff food and entertainment - In 2014 \$760,000, 2015 – only \$165,596, and 2016 - \$ 138,000 in disallowances. Increased up to \$347,000.
- **Consultant Services** – 12 out of 23 (52% 2017 vs. 26% in 2016)

# Audit Findings

- **Expenses Claimed from other Programs and Incorrect Allocations** – 12 out of 23 – Almost half of the audits identified problems related to the allocation of costs among programs and or the inappropriate claiming of expenses from other programs.
- **Undisclosed related-party transactions** – 3 out of 2 (13% of audits)
- **Errors in accounting methodologies used for Depreciation, Amortization and Accruals**– 4 out of 23 (17% of audits)

# Audit Findings

- In 2017 the OSC included a statement regarding what they describe as a “Lack of Due Diligence by Certified Public Accountants”. In the Report, the Comptroller states “OSC audits completed in 2017 continue to find numerous errors in costs reported in CFR’s that can be attributed to a lack of due diligence by CPA’s hired by special education providers.”

# Future of OSC Preschool Audit Initiative

- OSC will continue to conduct preschool audits – with a focus on “high risk preschools – identified by OSC as large providers.
- OSC reserves the right to “re-audit” programs
- Majority of preschools still to be audited are in the downstate region – many in NYC
- The large 4410 providers have much higher program related costs and therefore will result in larger amounts of disallowances – 3 % or lower
- There are still audits from 2014 and before that may result in new criminal prosecution.

# SED has taken action in response to original “negative audits”

## ACTIONS TAKEN

- Amended Part 200 regulations regarding requirements for preschool directors – Qualifications/ Geography
- Changed the reapproval process for 4410 providers
- Changed the SEQA Review
- Authorized school districts and municipalities to audit 4410 providers – allowed to keep recouped dollars
- SED RSU conducting significant numbers of desk audit reviews of CFR’s