Audit Report

The Early Childhood Direction Center
of Variety Child Learning Center

For the Period

July 1, 2005 through June 30, 2006

SE-0807-03

May 15, 2009

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234

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

James A. Conway
Director
Office of Audit Services
Tel. (518) 473-4516
Fax (518) 473-0259
E-mail: jconway@mail.nysed.gov

May 15, 2009

Ms. Janet Slade, Controller
Variety Child Learning Center
47 Humphrey Drive
Syosset, NY 11791

Dear Ms. Slade:

The following is our final audit report (SE-0807-03) on the Variety Child Learning Center's Early Childhood Direction Center for the period July 1, 2005 through June 30, 2006. The audit was conducted pursuant to Section 305 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

Ninety days from the issuance of this report, officials will be asked to submit a report on actions taken as a result of this audit. This required report will be in the format of a recommendation implementation plan and it must specifically address what actions have been taken on each audit recommendation.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

James Conway

Enclosure
c: T. Savo, R. Cort, R. Johnson, M. Plotzker, E. Gervais, J. Bloch, A. Timoney (DOB), B. Mason (OSC)

Executive Summary

Background and Scope of the Audit

The Variety Child Learning Center (VCLC) is located on Long Island, in Nassau County. VCLC operates an Early Childhood Direction Center (Nassau ECDC) to assist parents and professionals in securing services that meet the needs of children with disabilities from birth to age five, by providing information about available service options and service delivery systems. During the 2005-06 fiscal year, Nassau ECDC claimed reimbursement from the State Education Department (Department) for expenditures of $165,768.

The Department's Office of Audit Services conducted an audit of Nassau ECDC for the period July 1, 2005 through June 30, 2006 to verify compliance with the requirements of its contract with the Department. The audit objectives were to ensure that all expenses claimed were accurate and consistent with the approved budget; that staff positions met the full-time-equivalent (FTE) requirements; and that defined program objectives were met. The audit also included a review of internal controls and compliance with applicable laws, regulations, and Department policies.

Audit Results

We found that Nassau ECDC claimed $8,653 in costs that were unallowable, undocumented, or inadequately, documented. Unallowable claims included food purchases, charges unrelated to the program, sales tax, depreciation, mortgage interest, and costs that were reported twice. Undocumented or inadequately documented charges were for supplies, on-line purchases, meals, consultant services, employee health insurance, and fringe benefits.

The audit found that Nassau ECDC did not meet three contract requirements. A mandatory .5 full time equivalent (FTE) Community Outreach Education Coordinator was only employed as a .14 FTE. In addition, Nassau ECDC did not submit the required equipment inventory list with the final expenditure report and only held fifteen training sessions instead of the twenty indicated in the contract work plan.

We also found improvement opportunities in Nassau ECDCs policies and procedures manual that could help enhance internal control.

Comments of Nassau ECDC Officials

Nassau ECDC officials' comments about the findings and recommendations were considered in preparing this report. They generally agreed with our findings and recommendations except in two instances. They disagreed with a finding and recommendation related to the disallowance of travel expenses of a non-ECDC staff member, and they also disagreed with the finding and recommendation related to the appropriateness of direct and indirect cost allocation. The audit recommended the return of related amounts. Their response is included as Appendix C.

Table of Contents

Introduction

Background

The Variety Child Learning Center (VCLC) was founded in 1966 as the first therapeutic nursery/kindergarten for children with autism and/or learning, language and behavioral problems. Today it offers a variety of services for children with special needs including an evaluation center, early intervention services for 0-2 year olds, preschool special education for 3-5 year olds, a special class in an integrated setting, special education itinerant teacher services, therapies, and related services.

In 1977, the Early Childhood Direction Center for Nassau County (Nassau ECDC) was established at VCLC. Nassau ECDC provides information, options, resources, and coordination of services to Nassau County parents and professionals who are concerned about the development of a child from birth to age five.

Nassau ECDC is classified by the State Education Department (Department) as a Technical Assistance Center (TAC), having specific expertise in an area such as education, health, or mental health, and provides technical assistance services in the normal course of its business. The Department contracts with a TAC in instances where it has neither the expertise nor the capacity to provide such services. Contracts with ECDCs are administered by the Office of Vocational and Educational Services for Individuals with Disabilities (VESID), programmatically; and by the Office of Fiscal Management, fiscally. Budgets for ECDCs are submitted and approved annually by VESID and expenditure reports are submitted quarterly. A typical ECDC budget includes allowable expenditure categories such as salaries; purchased services; event costs; supplies and materials, printing costs; travel expenses; employee benefits and other costs; indirect cost; purchased services with BOCES; and equipment.

Nassau ECDC's contract (Contract) with the Department is from the period July 1, 2005 to June 30, 2010. During fiscal year 2005-06, Nassau ECDC had an approved budget of $165,769.

Objective, Scope and Methodology

The audit objectives were to verify that Nassau ECDC met the terms of the Contract in the following ways:

- all expenses were accurate and consistent with the approved budget;
- staff positions met the full-time equivalent (FTE) requirements; and
- the program objectives were met.

The audit also included a review of internal controls and compliance with applicable laws, regulations, and Department policies.

To accomplish the audit objectives, we reviewed applicable laws, regulations, policies, and procedures; interviewed Department, VCLC, and Nassau ECDC management and staff; tested controls; and examined records and supporting documentation.

We conducted our audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. Our audit included examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records and applying other procedures considered necessary in the circumstances. We believe that the audit provides a reasonable basis for our findings and recommendations.

Comments of Nassau ECDC Officials

Nassau ECDC officials' comments about the findings and recommendations were considered in preparing this report. They generally agreed with our findings and recommendations except in two instances. They disagreed with a finding and recommendation related to the disallowance of travel expenses of a non-ECDC staff member, and they also disagreed with the finding and recommendation related to the appropriateness of direct and indirect cost allocation. The audit recommended the return of related amounts. Their response is included as Appendix C.

Contract Expenditures

All expenditures charged to an ECDC program should be based on the approved contract, represent legitimate expenses of the program and be sufficiently documented to establish allowability.

The Department's policy states that TACs will be reimbursed for allowable expenses that are actual, reasonable, and necessary as authorized and described in each contract. In addition, the Contract requires the Nassau ECDC to establish and maintain documentation related to the contract for up to 7 years.

During the audit, we reviewed $29,659 in non-salary related payments and $136,110 in salary-related payments that were made during the 2005-06 program year. While most of these expenditures were appropriate, we found that Nassau ECDC was reimbursed for some expenditures that were unallowable, undocumented, or inadequately documented. We also found expenditures that were claimed under the wrong category.

Unallowable Expenditures

The TAC policy states that unallowable expenses include, but are not limited to, gifts, contributions, alcoholic beverages, entertainment, and expenses that violate the State Ethics Law. It also states that during periods of State fiscal stress, costs that are otherwise allowable, such as meals, may be prohibited.

Nassau ECDC claimed reimbursement for unallowable expenditures such as food, non-ECDC related charges, sales tax, depreciation, and mortgage interest. Further, certain costs were improperly reimbursed, both by direct charge and through indirect cost.

Food

The Nassau ECDC Contract specifically excludes food costs from being claimed. The Contract states that "Expenditure of funds is allowed for the following: event costs (due to current fiscal constraints, food costs are not allowed)."

We found that Nassau ECDC was reimbursed $126 for food and wine purchases, as follows:

- A $35 reimbursement was made in cash to a Nassau ECDC employee for a $4 (King Kullen) purchase and a $31 (Bagel Boss) purchase.
- A $84.50 (Bagel Boss) purchase using an American Express card, for an ECDC Council Meeting, and
- A $7 wine purchase which was included in a $453 expenditure (paid with check #20820) for various conference fees.

Non-ECDC Related

Expenditures charged to Nassau ECDC should represent a valid expense of the program and be based on the approved Contract. The following expenditures were not for the benefit of the Nassau ECDC program and not based on the Contract:

- $400 was charged and reported under the travel category in the final expenditure report. The charge was for a non-ECDC staff member's attendance at the February 2006 Long Island Association of Special Education Administrators (LIASEA, Inc.) Annual Conference.
- Two payments for a total of $26 were mistakenly charged to Nassau ECDC.

Sales Tax

As a tax exempt organization, Nassau ECDC should not pay taxes on purchases made within New York State.

VCLC's Accounting Policies and Procedures Manual states that "VCLC presents a copy of its New York State Sales Tax Exempt Organization Certificates to all qualified vendors so that they are not charged sales tax."

We found that Nassau ECDC paid $63 in taxes, and claimed this amount as a Nassau ECDC expenditure for the following:

- A $161 payment for a one night hotel stay at Gurney's Inn Resort included $36 in taxes.
- A $453 payment for various conference fees included $24 in taxes paid for the hotel stay.
- A $33 payment to IKEA included $3 in taxes.

Depreciation and Mortgage Interest

Nassau ECDC claimed depreciation expense totaling $5,893 for computers, office equipment and building space under the purchased services category on the Nassau ECDC final expenditure report. Since depreciation expense is not an actual expense and not listed as an allowable expense in the Contract, it is disallowed.

Nassau ECDC also claimed mortgage interest of $234. Similarly, this is disallowed because it is not included in the Contract as an allowable cost.

Direct and Indirect Costs

Allowable costs may be direct or indirect. Direct costs are those that can be specifically identified with a particular program or cost objective. Indirect costs are incurred for common, joint, or multiple objectives of an organization that cannot be readily identified with any one particular cost objective. Reimbursement for indirect costs is determined by the organization's indirect cost rate, which is established by the Department. The indirect cost rate (a percentage multiplier) is then applied to the allowable direct cost base to determine the amount of indirect costs that may be claimed. Costs included in the indirect cost calculation may not also be directly charged to a program.

Nassau ECDC claimed $6,195 as direct cost for various operation and maintenance charges such as maintenance workers' salaries and fringe benefits, electricity, fuel, waste, security system, pest control, building repairs and custodial supplies. These items were listed under the purchased services, salaries and employee benefits categories on the final expenditure report. These same costs were included in the calculation of indirect costs. Since indirect cost should cover, among other things, costs of operating and maintaining facilities, it appears that Nassau ECDC was reimbursed through the indirect cost calculation and also as direct cost. We made an adjustment by removing the $6,195 from the calculation of indirect costs. (Please see appendix B for the calculation.) The net effect of removing the cost from the calculation is a reduction of $161 from the indirect cost.

Undocumented or Inadequately Documented

The Nassau ECDC Contract states that "The Contractor shall establish and maintain complete and accurate books, records, documents, accounts, and other evidence directly pertinent to performance under this Contract. The records must be kept for the balance of the calendar year in which they were made and for six additional years thereafter."

Nassau ECDC claimed and was reimbursed for the following expenditures which lack or have inadequate supporting documentation to indicate that the payments were accurate, necessary, and valid.

Supplies

Nassau ECDC claimed $372 for supplies. We found that $263 of this amount did not have supporting documentation. According to Nassau ECDC officials, the same amount is allocated for supplies each year.

On-line Purchases

Nassau ECDC claimed $2,143 for internet book purchases (that were paid for with a credit card), however the total payments were $2,118, a difference of $25. The $25 was disallowed as there was no documentation available to explain the difference.

Health Insurance

No documentation was provided to support $705 in health insurance payments made by Nassau ECDC for its employees. This amount consists of $26 for maintenance workers and $679 for the Nassau ECDC director.

Fringe benefits

The amount charged for fringe benefits claimed on the final expenditure report was $21,136; however, the documentation provided by Nassau ECDC only supported expenditures of $20,651. The difference of $485 did not have supporting documentation.

Meals and Travel

Employees were reimbursed $57 for travel related expenditures without submitting receipts.

No Contract with Consultants

Typically, a business enters into a contractual agreement with a service provider before services are delivered. Such contracts should clearly stipulate the services to be provided, a timeframe for the delivery of the services, the cost of providing the services, and the timing and method of payment. The contract serves as protection for both parties should disputes arise. Although the audit did not disallow any amount, it is worth noting that Nassau ECDC paid five consultants $1,470 to conduct seminars and provide training with no written agreements.

Improper Classification of Cost

The misreporting of expenditures in the incorrect category does not allow actual expenditures to be compared to the approved budgeted amount for that category. It could also lead to overspending beyond the budgeted amount for a category.

A $376 hotel charge for a trip to Albany was claimed under the supplies category instead of travel on the final expenditure report.

Recommendations

1. Collect and maintain supporting documentation to substantiate all Contract expenditures.

2. Management-approved contracts should exist for all contractors and include the terms of payments and the deliverables.

3. Ensure that all expenditures are allowable and adequately documented.

4. Return $8,277 in unsupported (direct cost) charges to ECDC.[1] See Appendix B for calculation.

5. Return $376 in indirect costs. See Appendix B for calculation.

[1] We found that the total reimbursement to VCLC for 2005-06 was underpaid by $2,270. VCLC Officials should seek guidance from the Department on how to rectify this underpayment.

Other Contract Requirements

The Contract contains requirements related to the performance of Nassau ECDC. We found that Nassau ECDC was in compliance with most of the Contract terms; however, it did not comply with the full time equivalent requirement for one mandated position. In addition, Nassau ECDC did not submit a required inventory list and it did not conduct all the training sessions required by the Contract.

Mandatory Positions

The Contract work plan includes a mandatory requirement which states that key personnel should include at least the following:

- 1 full time equivalent (FTE) Director of Nassau ECDC ,
- .5 FTE Community Outreach Education Coordinator,
- .5 FTE Resource and Referral Coordinator.

In the original Nassau ECDC budget, the Community Outreach Education Coordinator's position was a .51 FTE, which meets the mandatory requirement of the Contract. However, Nassau ECDC only employed a .14 FTE person for this position based on the budget amendment submitted.

Equipment Inventory

Appendix A-1 of the Contract under the Property heading states that "The Contractor shall maintain a complete inventory of all realty, equipment, and other non-expendable assets.…. The term 'non-expendable assets' shall mean for the purposes of this agreement any and all assets which are not consumed during the term of the agreement and which have a cost of $1,000 or more. Inventories for non-expendable assets must be submitted with the final expenditure report. In addition to or as part of whatever rights the State may have with respect to the inspection of the Contractor, the state shall have the right to inspect the inventory without notice to the Contractor."

Nassau ECDC did not submit the ECDC equipment inventory form with its final expenditure report.

Performance Measures

The Nassau ECDC Contract states that "The Contractor shall perform all services to the satisfaction of the State. The Contractor shall provide services and meet the program objectives summarized in the Program Workplan (Appendix D) in accordance with provisions of the agreement, relevant laws, rules and regulations, administrative and fiscal guidelines, and where applicable, operating certificates for facilities or licenses for an activity or program."

Specifically, the Nassau ECDC Contract, within the Program Workplan, requires that "20 workshops will be held and attended by a total of 200."

While other deliverables within the Workplan were achieved by Nassau ECDC, only fifteen of the required twenty training sessions were held. The fifteen training sessions provided by Nassau ECDC were supported by documentation and were reported correctly on the quarterly report and in the quarterly narrative.

Recommendation

6. Comply with all mandatory Contract requirements contained in the program work plan, including the requirement that key personnel should include a .50 FTE Community Outreach Education Coordinator.
7. Comply with the Contract requirement to submit the ECDC inventory report with the final expenditure report.
8. Fulfill the contracted program work plan for each performance measure and/or deliverable.

Internal Control

One element of a sound financial management system is internal control. Internal controls are a combination of attitudes, policies, and efforts of the people within an organization working together to achieve the organization's objectives and mission. Controls should be well documented and up-to-date, as they provide employees with guidance on proper behavior and job expectations. An organization's management is responsible for making sure this system of internal controls has been developed, implemented, and communicated throughout the organization.

Nassau ECDC can improve internal control by enhancing its policies and procedures manual which provides guidance to employees.

Accounting Policies and Procedures Manual

VCLC's Accounting Policies and Procedures Manual (Manual) includes pertinent areas such as cash disbursements and purchase authorization. However, it is missing some significant information. For example, under the Cash Disbursement section it states "Only purchase orders signed by CFO or CEO vouchers with all required documentation (including purchase requisitions signed by a Supervisor) will be processed for payment" yet it does not describe all the required documentation.

In addition, the Manual also states that "check requests can be processed for purchases which require payment prior to receipt of goods. Check requests require properly approved requests, as well as the signature of the CFO (or CEO). A system is in place to secure all receipts for these purchases in a timely manner." However, the "system" mentioned is not explained and our review of voucher payments indicates that either there is no system in place or it is ineffective.

Recommendation

9. Revise or update the Manual to address the required documentation for vouchers and the system to secure all receipts.

Appendix A

Contributors to the Report
The Early Childhood Direction Center of Variety Child Learning Center

- Maria C. Guzman, CPA, Audit Manager
- Susan DuFour, Associate Auditor
- Ashley Weil, Auditor

The Early Childhood Direction Center of Variety Child Learning Center
Schedule of Audit Adjustments
For the Period July 1, 2005 Through June 30, 2006

Adjustments to Direct Costs Claimed		Disallowance	
Unallowable Costs			
Food		$ (126)	
Non-ECDC related		(426)	
Sales Tax		(63)	
Depreciation		(5,893)	
Mortgage Interest		(234)	
Undocumented or Inadequately Documented			
Supplies		(263)	
On-line Purchases		(25)	
Health Insurance		(705)	
Fringe Benefit Difference		(485)	
Meals and Travel		(57)	
Total Adjustments to Direct Costs Claimed			$ (8,277)
Adjustments to Indirect Cost	Cost Base	Disallowance	
Indirect Cost Rate		2.60%	
Total Direct Cost Adjustment (see above)	**(8,277)**	(215)	
Cost Reimbursed as Direct Cost and Indirect Cost:			
Operating and Maintenance, in Purchased Services	(1,902)		
Maintenance Worker, in Salaries	(3,701)		
Maintenance Worker, in Fringe Benefits	(592)		
Total Indirect Cost Adjustment	**(6,195)**	(161)	
Total Adjustments to Modified Direct Cost Base	(14,472)		
Total Adjustment to Indirect Costs Claimed			(376)
Total Adjustment (Direct and Indirect Cost)			**$ (8,653)**[1]

Variety Child Learning Center
INVESTING IN CHILDREN AND FAMILIES SINCE 1966

April 21, 2009

Mr. James Conway
Director
Office of Audit Services
The State Education Department
The University of the State of New York
Albany, New York 12234

Dear Mr. Conway:

Thank you for extending the due date for receipt of our comments to the Draft Audit Report, SE-0807-03. Below are our responses:

- *Food:* Upon review of the contract, we agree that the food costs incurred for programs should be disallowed.
- *Non-ECDC Related*: The $400 charged and reported under the travel category represented payment for a staff member who accompanied Direction Center staff to a conference for the purpose of providing future training sessions to constituents of ECDC. Therefore, we do not believe that this charge was invalid. We agree that the two payments of $26 were mistakenly charged to the ECDC and should be disallowed.
- *Sales Tax:* We do agree that the sales tax paid should be disallowed. We have set up additional controls to prevent this expenditure in the future.
- *Depreciation and Mortgage Interest*: The contract does not list facility costs as a reimbursable expenditure; however the Direction Center is housed in our facility. We understand, based upon the contract, that this cost will be disallowed and it will be considered an "in-kind" contribution to this program in the future.
- *Direct and Indirect Costs*: The maintenance workers' salaries and fringe benefits, electricity, fuel, waste, security system, pest control, building repairs and custodial supplies were allocated directly to the Direction Center based upon the square footage occupied by the staff and were listed separately on the original budget accepted by VESID. We assumed the indirect cost rate was similar in meaning to that on the CFR; it includes the administrative costs that cannot be directly allocated to any program based upon square footage, staff, etc. This would include the salaries of the CEO, CFO, COO, controller, maintenance and utilities of the administrative space only, etc. Therefore it is our opinion, that this cost should not be deducted from the indirect cost calculation.

47 HUMPHREY DRIVE SYOSSET NEW YORK 11791 PHONE 516.921.7171 FAX 516.921.8130 WWW.VCLC.ORG

- *Supplies*: Supply request forms are required from the Direction Center and are maintained in our purchasing department which was newly established in 2005. Documentation from that year was stored during a reorganization of space and we cannot locate the request forms for the first half of the fiscal year 2005/2006.
- *On-Line Purchases:* The additional $25 charged was in error. We had returned a book and neglected to deduct the cost from this budget.
- *Health Insurance:* Fringe benefits were allocated based upon a percentage of the total benefits to total salaries in our programs. Employee specific benefits are currently being charged to ECDC.
- *Meals and Travel:* VCLC always requires receipts for reimbursement to its employees for any expenses. Unfortunately, documentation for this $57 travel expense was misplaced or misfiled. This is certainly not reflective of our overall internal control system. We will continue to insure that proper documentation is on file for all expenditures paid to vendors and/or reimbursed to staff.
- *No Contract with Consultants:* VCLC, historically, has entered into contractual agreements with consultants providing services in any of our numerous programs. We have created and implemented the use of an appropriate contract to be used for the Direction Center as well.
- *Mandatory Positions:* We were initially unable to find the appropriate candidate for the position of Community Outreach Education Coordinator during the audit year.
- *Equipment Inventory:* Although we did not initially attach the equipment inventory to the final expenditure report, we did supply the report upon request by your office.
- *Performance Measures:* Our training sessions were coordinated with the Nassau County Department of Health. We were able to provide fifteen of the twenty training sessions. The additional five sessions were not provided due to a lack of response by constituents.
- *Accounting Policies and Procedures Manual*: We appreciate your recommendations regarding our manual and the additional details will be included. However, we do have a very strong voucher system in place and it has been reviewed and audited on numerous occasions by our independent auditors, in addition to OMRDD's independent auditors and no weaknesses were found.

We appreciate your comments. Kindly contact me if you need any additional information.

Thank you.

Sincerely,

Andrea Rieger
CFO

Janice Friedman
CEO