
Audit Report

Rochester Surround Care Community Corporation

For the Period

October 1, 2007 through June 30, 2009

SP-0908-2

February 19, 2010

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

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February 19, 2010

Rochester Surround Care Community Corporation, Inc.
ATTN: Mr. Adam McFadden
500 East Avenue
Rochester, NY 14607

Dear Mr. McFadden:

The following is our final audit report (SP-0908-2) on the Rochester Surround Care Community Corporation's administration of Contract C09025 for the period, October 1, 2007 through June 30, 2009. The audit was conducted pursuant to Education Law Section 305 and the Board of Regents/State Education Department Strategic Plan – Goal #5, which states: "Resources under our care will be used or maintained in the public interest."

I appreciate the cooperation and courtesies extended to the staff during the audit. If you have any questions or require additional information regarding the audit, please contact James Conway at (518) 473-4516.

Sincerely,

James A. Conway

Enclosure

c: T. Savo, M. Kogelman, J. King, D. Juron, J. Delaney, A. Timoney (DOB), B. Mason (OSC),
D. Palmer (Deputy Secretary for Education)

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Introduction

Background

Rochester Surround Care Community Corporation (RSCC)¹ is a not-for-profit social service organization that promotes youth and financial literacy, nurturing young children, health care, and community safety for residents within a poverty-stricken area of Rochester's inner city. RSCC partners and coordinates with 21 local agencies who provide the services.

In 2007, the New York State Legislature appropriated \$2.8 million, for the 2007-08 school year, with a similar amount anticipated for the following school year. This amount was intended to fund a pilot program in the Rochester City School District to bring together community organizations for the delivery of integrated services for children and families. The appropriation provided funds to RSCC through a contract with the New York State Education Department (Department) which sets forth the purpose and guidelines for the grant award. A \$4 million, two-year contract with the Department was signed in October 2007.

RSCC's contract with the Department specifies goals and objectives, payment terms, the contract period, and activities and services to be rendered. The contract provided for a \$700,000 advance in December 2007 to begin covering costs of service provision. In addition, the contract states that interim payments would be made quarterly based upon RSCC expenditure reports.

On September 2, 2008, RSCC submitted a quarterly expenditure report, amounting to \$2.4 million, for the contract period October 1, 2007 through June 30, 2008. Concerns regarding the validity of the amount resulted in our audit of the expenditures for the 2007-08 contract period. The focus of this audit was to determine if RSCC is entitled to reimbursement of the amount claimed in the report.

¹ RSCC was originally named the Rochester Children's Zone. After completion of our fieldwork they changed their name again, this time to Rochester Children's Renaissance.

We performed a subsequent audit of RSCC administrative and partner expenditure documentation to identify amounts that are reimbursable for the 2008-09 contract period. During this review, RSCC also provided documentation of expenses for the construction of a web-based database to track children receiving services from their partner organizations.

Objectives, Scope and Methodology

The Department's Office of Audit Services (OAS) conducted audits of RSCC, the objectives of which were to determine if:

- agreements with partners exist, and if so, they are consistent with the intent of RSCC's contract with the Department;
- \$2.4 million in expenditures claimed for the 2007-08 contract period are reimbursable;
- \$470,436 in administrative and \$400,358 in partner expenditures claimed for the 2008-09 contract period are reimbursable; and
- a \$387,000 invoice for the construction of a web-based client tracking system is reimbursable.

To accomplish our objectives we reviewed RSCC's contract with the Department; bank, payroll, and cash flow statements; expenditure, invoice, and cost breakdown documentation; and partnership agreements.

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

Audit Results

Contract Period October 1, 2007 to June 30, 2008

We found that RSCC had formal agreements with all its partners. The agreements require each partner to provide

service(s) consistent with the terms of RSCC's contract with the Department.

Our review of fiscal records for the 2007-08 contract period showed that most of the \$2.4 million claimed by RSCC in its quarterly expenditure report is not reimbursable; it includes expenses that were incurred both prior to and after the contract period, and disbursements that were erroneously classified as expenses. For instance, of the \$2.4 million claimed, we identified \$2.1 million that is not reimbursable for the following reasons:

- Expenses amounting to \$135,491 and \$243,888 were incurred prior to the execution of the contract and in the 2008-09 school year, respectively. The expenses, however, were included in the 2007-08 contract period claim.
- Expenses paid for planning services and attorney's fees amounting to \$84,773 and \$14,329, respectively, were paid for in the 2007-08 contract period but services were provided before the contract was executed.
- Encumbered partnership agreements amounting to \$978,720, a \$627,684 bank transfer, a loan repayment of \$25,000, and cancelled checks amounting to \$329 were erroneously booked as expenditures.

In addition, during our initial site visit, RSCC personnel provided us with correspondence from 12 partners asserting additional 2007-08 contract period expenses amounting to \$523,409. However, RSCC had not reimbursed the partners for those costs and the documentation provided was insufficient to determine the validity of the claims, nor was it audited. Conversely, we identified an additional \$10,425 in reimbursable payroll expenses that were not included in RSCC's quarterly expenditure report for the 2007-08 contract period.

Contract Period July 1, 2008 to June 30, 2009

RSCC personnel provided us with expenditure documentation for \$470,436 in administrative and \$400,358 in partner expenditures for the 2008-09 contract period. All administrative expenditures, with the exception of an

erroneous double billing that amounted to \$4,385, were documented, supported and reimbursable.

Regarding partner expenditures, seven of RSCC's partners submitted expenditure reports associated with service provision related to nine grant agreements. Supporting documentation submitted along with the expenditure reports substantiates reimbursement of \$288,876 of the \$400,358 in claimed expenses. Some of the partners received start-up funds (\$105,000 in total) at the initiation of their agreements; therefore, the total reimbursable amount for claimed partner expenses for the 2008-09 contract period is \$183,876. Non-reimbursable expenses resulted from the following conditions:

- Two of the partner grants contained language clearly stating that the purpose of the grant is to fund scholarships for students enrolled in their programs that live within specific Rochester City geographic boundaries. We could not substantiate that the number of clients purportedly served under one of the grants met the geographic requirement, and had to calculate the percentage of eligible clients served and apply it to operational costs for the other grant.
- A partner requested payment for participant stipends but the expenditure documentation did not contain adequate support (e.g., program participant time cards) to substantiate the expense and the amount requested was more than their grant agreement award.
- There was \$30,000 in unsupported payments for training costs incurred by a partner.
- Unsupported charges for equipment, travel, and supplies, and numerous charges for expenditures that were incurred outside the scope of service provision.

Furthermore, partners who received funding at the initiation of their grant agreements and did not request additional funding at the time of our second site visit were required by the Department to submit written statements certifying that they had expended the funds in accordance with their agreement with RSCC. All of the partners submitted the required certifications; however, one of the partners' certifications stated that they had an unspent balance of \$3,614 that was refunded back to RSCC. Our review of

financial records showed that RSCC did not account for the refund.

Based on the information available at RSCC and given the amount of non-reimbursable and unreported expenses that we identified, we have concluded that RSCC's reimbursable administrative and partnership expenses for the 2007-09 contract period are \$780,684² and \$183,877, respectively³.

Finally, during our second site visit, RSCC personnel provided us with an invoice from an information technology services company, amounting to \$387,000, and a detailed 28-page cost breakdown for the design, development, and support of a web-based database to track the progress of children in the various programs being run by partner organizations. We reviewed the cost breakdown and were given access to the database while at RSCC's headquarters. Based on our review of the cost breakdown and the database, we have identified the following issues:

- Work constructing the database began on November 1, 2007; however, RSCC did not issue a request for proposal soliciting bids for the building of the database until May 22, 2008, nearly seven months after work had already begun. In addition, the contract between RSCC and the company that built the database was not executed until September 27, 2008.
- The company that built the database issued a late payment notice to RSCC in the amount of \$387,000 on May 1, 2008. This notice precedes the request for proposal for the project by 22 days and the contract date by four months.
- Many of the costs associated with the construction of the database are unrelated to RSCC and few can be directly attributed to the RSCC project. For example, the company included charges for time spent pursuing government grants, marketing, meetings conducted with non-RSCC personnel, a sales trip to North Carolina, entering report card data, and time spent preparing the request for proposal for RSCC.
- None of RSCC's personnel, who were present at the time of our site visit, knew how to gain access to, or what client information was on the database, nor had

² Administrative expense calculation includes \$235,670 in partnership advances that were provided during the 2007-08 contract period.

³ See appendix B.

they received training on how to use the system. We were able to gain access to the database after RSCC personnel called the company, who instructed them on how to log us in. Once we gained access to the system, we noted that the database contained no data on any RSCC clients whatsoever.

RSCC never submitted an expenditure claim (to the Department) containing expenses associated with the construction of their web-based database. Lastly, we could not reasonably calculate the amount of claimed expenditures (identified in the cost breakdown) that would be reimbursable; therefore, we do not recommend that the Department provide for the reimbursement of any portion of the invoice.

The Department has paid RSCC \$851,942 of the \$960,946 in reimbursable expenditures that we were able to substantiate. The remaining unreimbursed balance due to RSCC partners is \$109,005.

Contributors to the Report
Rochester Surround Care Corporation

- Maria C. Guzman, CPA, Audit Manager
- Andrew B. Fischler, Associate Auditor
- Thomas P. Holland, CPA, Senior Auditor

Rochester Surround Care Community Corporation, Inc.
Reimbursable Expenditures October 1, 2007 - June 30, 2009

Administrative Expenditures and Advances to Partners**10/1/07 to 6/30/08**

Advances to major partners	\$196,000	
Advances to minor partners	39,670	
Payroll	38,137	
Executive Search	26,867	
Supplies	3,493	
Computers and Software	3,267	
Website Development	2,914	
Food	2,154	
Miscellaneous Expenses	1,180	
Logo Design	<u>950</u>	
Total for Period.....		314,632

Administrative Expenditures Only**7/1/08 to 6/30/09**

Payroll	\$326,180	
Rent & Utilities	59,530	
Furnishings	22,150	
Supplies	16,486	
Computers and Software	13,531	
Professional Services	12,728	
Miscellaneous Expenses	6,422	
Janitorial	4,611	
Food	2,930	
Travel	<u>1,484</u>	
Total for Period.....		466,052

Verified Partner Expenditures in Excess of Advance Payments..... 183,876

Grand Total - Entire Contract

Period..... \$964,560

Less: Unspent Balance of Partner Advance Funding..... (3,614)

Total Allowable Expenditures For Entire Contract..... \$960,947

Less: Education Department Payments To-Date

12/03/07	Advance Payment	\$700,000.00
11/10/08	Interim Payment	115,000.00
05/11/09	May Payroll	18,471.02
06/08/09	June Payroll	<u>18,471.02</u>

Total Payments..... 851,942

Remaining Unreimbursed Balance..... \$109,005