



**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](mailto:jconway@mail.nysed.gov)

May 28, 2013

RE: Fiscal Audit Guidelines and Requirements

Dear Chief Elected Officials of the Counties:

This is in reference to Education Law, Section 4410(11)(c)(i)&(ii) and Section 200.18 of the Regulations of the Commissioner of Education (Regulations) regarding fiscal audits of approved preschool programs and services. Chapter 57 of the laws of 2013 directed the Department to provide guidelines on standards and procedures to municipalities that perform fiscal audits of approved preschool special education programs. Accordingly, the Department is updating its regulations that currently provide for the submission of an audit plan and audit program for approval by the Commissioner of Education by those municipalities that elect to perform a fiscal audit. The new regulations will be considered by the Board of Regents at the May 20<sup>th</sup> meeting and would require that any fiscal audit commenced on or after May 28<sup>th</sup> 2013 be performed pursuant to an approved audit plan and audit program that is consistent with the enclosed guidelines.

The enclosed guidelines and requirements were developed to comply with the law's requirements and with the intent of assisting municipalities in the development of their audit plan and audit program.

Once approved by the Commissioner, an audit program and audit plan is valid for a five year period. The guidelines do, however, request that municipalities annually report to the Department the agencies selected for audit that involve school years 2013-14 and beyond. This will enable the Department to coordinate its own audit effort with preschool programs.

If there are any questions or comments regarding the enclosed guidelines, please contact me at (518) 473-4516 or write to the address noted for the Office of Audit Services in the enclosed guidelines.

Sincerely,

James A. Conway

Enc.

NEW YORK STATE EDUCATION DEPARTMENT  
GUIDELINES AND REQUIREMENTS FOR FISCAL AUDITS  
PERFORMAED BY MUNICIPALITIES OF PRESCHOOL PROGRAMS  
APPROVED PURSUANT TO EDUCATION LAW, SECTION 4410  
May 28, 2013

I. Introduction

Pursuant to section 4410 of the Education law, individual counties and the State share fiscal responsibility for provision of special education services to children with disabilities ages three and four.

County officials, and in the case of a city of one million or more persons, the board of education of the city school district of such city, are also authorized to perform fiscal audits of approved preschool special education programs (approved preschool program) in their municipality in accordance with audit standards established by the Commissioner of Education (Commissioner). Chapter 57 of the Laws of 2013 directed the State Education Department (Department) to provide guidelines on standards and procedures for fiscal audits of approved preschool programs. Section 200.18 of the Regulations of the Commissioner of Education (Regulations), as amended, provide that prior to conducting an audit of an approved preschool program, a municipality is required to submit an audit plan and audit program to the Commissioner for approval. The audit plan shall be valid for a period of five years from the date of approval. Municipalities need not submit audit plans and programs for each audit during the five year approval period once approval has been granted by the Commissioner. Upon approval, each municipality may conduct audits in conformance with generally accepted government audit standards. Once the audit is completed, a draft report shall be submitted to the Commissioner for review and/or reconciliation. Only audits that are performed in accordance with the Department's guidelines and requirements for fiscal audits will be approved by the Commissioner. Upon approval by the Commissioner, the audit shall be considered a state audit for the purposes of finalizing the tuition rate for the program.

The State Education Department (Department) requests municipalities report at least annually the agencies scheduled for audit, and notify the Department of any changes to such schedule. In such way, the Department is cognizant of the audit coverage devoted to preschool programs which will enable the Department to coordinate its own audit effort. Correspondence regarding audit candidates and schedules should be sent to the address noted below.

The following guidelines and requirements are provided to assist municipalities in developing audit plans and programs for submission and approval by the Commissioner. They are intended to identify the minimum elements required for Department approval, not to limit audit scope or procedures in any way. As such, the guidelines and requirements presented herein shall be applicable to audits commencing on or after May 28, 2013. Audit plans, programs and schedules can be sent to the following address:

State Education Department  
Office of Audit Services  
89 Washington Avenue  
Room 524 EB, East Wing  
Albany, New York 12234

Questions concerning these guidelines should be directed to the Office of Audit Services by writing to the above address or by calling (518) 473-4516.

## II. Audit Plan

Municipalities that conduct audits of approved preschool programs shall develop an annual audit plan that covers at least the following sections:

- A. Statutory Authority for Conducting Audits,
- B. Audit Purpose and Scope,
- C. Audit Standards,
- D. Audit Candidates and Selection Criteria.

Presented below is a description of the type of information that should be covered by each section.

**Authority** – This section should cite a specific statute or regulation that authorizes the conduct of audits. Specifically: Section 4410(11)(c)(i)&(ii) of the Education Law; and Section 200.18(b) of the Regulations entitled “Fiscal audits of approved preschool programs and services approved under Section 4410 of Education Law performed by the municipality and accepted by the commissioner” authorizes municipalities to conduct audits. Additionally, other local municipal statutes may be cited.

**Purpose and Scope** – This section provides the overall purpose for conducting the audit and the scope or parameters established for the audit (Attachments A and B in this document provide additional guidance regarding the audit objectives). The purpose and scope narrative should identify the programs and period(s) that will be covered by the audit and shall include the following five objectives at a minimum:

- To determine that expenses are properly reported in accordance with applicable guidelines, regulations, and instructions.
- To determine the accuracy of the reported full time equivalent enrollment and/or units of service used in the calculation of tuition.
- To determine that all applicable revenue has been offset against reimbursable expenses as mandated by Section 4401 of the Education Law.
- To verify that tuition is billed and the related revenue is accurately reported for all full time equivalent students as determined by audit.

- To determine if costs related to tuition rates are allowable through verification of supporting documentation, appropriateness of allocation methodologies, and compliance with the Reimbursable Cost Manual.

**Note: Failure to complete the required minimum objectives will preclude the audit from being issued as final, and will not result in an audited rate.**

**Audit Standards** – This section of the plan identifies the professional audit standards adopted by the municipality for conducting audits. The standards required to be followed for these audits are the most current version of:

Government Auditing Standards (The Yellow Book) issued by the United States Government Accountability Office (GAO), currently December 2011 Revision.

**Audit Candidates and Selection Criteria** – This section of the plan explains the rationale employed for choosing particular preschool programs for audit. The criteria should be applied on a consistent basis and may include factors such as level of tuition rates, student population, staffing or other characteristics. Considerations may also be given to schools operating multiple programs involving preschool children.

### III. Audit Program

The audit program prescribes the detailed audit methodology and audit procedures to be followed for conducting audits of preschool programs. It should be designed to obtain the necessary evidence for accomplishing audit objectives and formulating an opinion regarding the accuracy and reliability of cost, enrollment and other pertinent data employed for the development of tuition rates.

Written audit programs shall include the individual audit steps that will be followed to complete the objectives outlined for the audit. The program should include pertinent background information, audit objectives and scope, audit methods to be employed, definition of unique terms and the general format to be followed in the audit report and, to the extent possible, the types of information to be included in the report.

### IV. Audit Report

**Audit Report Protocols** – Section 200.18(b)(4) of the Regulations provides for submission of a draft report to the Commissioner for review and/or reconciliation. The report should be prepared in accordance with audit standards and completely describe any findings including recommended disallowances. Attachment B to this document illustrates required sections and tables.

The draft audit report shall include the formal written comments to the findings and recommendations submitted by the Chief Executive Officer of the school or program audited. The written comments shall be reflected in the text of the draft report as appropriate and the full text of the response shall be included as an appendix to the draft report. An exit conference shall be held with the school or program officials prior to

release of the draft report to the Commissioner. Draft reports submitted by municipalities shall follow the provisions outlined in Section 200.18 of the Regulations.

Decreases to tuition rates shall be advanced after careful review of the audit report. Department staff may request copies of work papers that support cost disallowances or other audit exceptions that support a decrease in a rate. The draft audit report should be submitted along with the rate appeal.

Rate adjustments resulting from an audit can only be promulgated by the Commissioner.

V. Submission of Audit Plans and Programs

Municipalities shall submit to the Department for approval a detailed audit plan and audit program for the proposed audit which shall be consistent with guidelines on audit standards and procedures described in this document. Commissioner approval of an audit program and audit plan shall be valid for a period of five years from the date of approval. Municipalities need not submit an audit program and audit plan for each audit to be performed during the five year approval period once approval has been granted by the Commissioner. However, modifications to the approved audit plan and audit program shall be submitted to the Department for review and approval and new approval must be obtained once the five year approval period has concluded.

The audit plan and audit program should be submitted at least 90 days prior to the period covered by the plan or the first scheduled audit. Modifications to audit plans and programs should also be submitted at least 90 days prior to the scheduled date for the audit.

The above time frames are not applicable to changes in candidates selected for audit or scheduled dates for initiating audits. However, the Department does request that counties notify the Department's Office of Audit Services of any changes to agencies scheduled for audit as previously mentioned.

## **Supplemental Guidance for Fiscal Audits Performed by Municipalities**

There is much to consider when planning for and conducting an audit of a special educational program. Prior to accepting any audit engagement, the auditor should first contact the Department (SED) to determine if any other municipalities bears financial responsibility for the entity being audited and to determine if the proposed programs have previously been audited.

Although the audit is designed to achieve five specific objectives, most of the testing that is undertaken is to verify that information submitted to SED on the Consolidated Fiscal Report is accurate, complete and supported by appropriate documentation including verification of allocation methodologies and compliance with the Reimbursable Cost Manual (RCM).

As part of the survey phase, auditors should assess the adequacy of controls systems within the provider. A control system should exist which would identify costs unrelated to the rate based program and prevent them from being reported on the CFR. Similarly, systems should exist to accurately identify cost, the program(s) they relate to and track other performance data. The adequacy of the controls should influence the extent of testing required.

Auditors should verify that they have the final version of the CFR before beginning testing. They should contact the Department's Rate Setting Unit (RSU) to verify that the CFR they are using has the same Document Control Number as the CFR used to establish the tuition rates.

Each CFR is applicable for a particular fiscal year. Auditors should ensure that they are using the correct CFR manual for the audit period in which they are engaged.

Providers are required to complete some or all of the following forms from the Consolidated Fiscal Report;

- Schedule CFR-i Agency Identification and Certification Statement
- Schedule CFR-ii Independent Accountant's Report- used when fiscal year and reporting year are the same
- Schedule CFRiiA Independent Accountant's Report - used when fiscal year and reporting year differ
- Schedule CFR-iii County/NYC Certification Statement
- Schedule CFR- 1 Program/Site Data
- Schedule CFR-2 Agency Fiscal Summary
- Schedule CFR-3 Agency Administration
- Schedule CFR-4 Personal Services
- Schedule CFR-4A Contracted Direct Care and Clinical Personal Services
- Schedule CFR-5 Transactions with Related Organizations/Individuals
- Schedule CFR-6 Governing Board and Compensation Summary
- Schedule SED-1 Program and Enrollment Data
- Schedule SED-4 Related Service Capacity, Need and Productivity

Below is suggested guidance for use in accomplishing certain of the audit objectives.

- To determine that expenses are properly reported in accordance with applicable guidelines regulations and instructions.

The Department requires special education providers to report expenses, student enrollment, revenues, etc. on the Consolidated Fiscal Report (CFR). Guidance on the proper reporting of expenses is contained in the Consolidated Fiscal Reporting and Claiming Manual. The CFR is required to be completed by providers receiving funding from or operating certified programs for SED. It is a standardized method of reporting that consists of schedules that captures financial information. The manual is located at:

[http://www.oms.nysed.gov/rsu/Manuals\\_Forms/Manuals/CFRManual/](http://www.oms.nysed.gov/rsu/Manuals_Forms/Manuals/CFRManual/)

- Auditors should become fully familiar with CFR requirements as they pertain to the State Education Department. It contains critical information that auditors need to fulfill their audit engagement such as submission requirements, type of CFR to be submitted, appropriate method of accounting used, agency specific instructions, and frequently asked questions and answers.
- To determine the accuracy of the reported full time equivalent enrollment and/or units of service used in the calculation of tuition
  - Section 175.6 of the Regulations provides the framework for calculating student enrollment for approved programs as well as the CFR manual. The SED-1 Schedule is used to report Full Time Equivalent (FTE) enrollment data that is crucial to calculating reimbursement rates. The CFR gives specific guidance as to how FTEs are calculated and reported. Auditors should be mindful that there are half-day programs and FTEs are calculated based on the services received.
- To determine that all applicable revenue has been offset against reimbursable expenses as mandated by Section 4401 of the Education Law.

Section 4401 states that an approved tuition rate shall be computed after revenues have been offset by the Department. Revenues are reported on the CFR-1 include:

- Any cash receipts that reduce the cost of an item and gains from the sale of program equipment (losses from sales are not reimbursable).
- Funding received from a governmental agency so as not to be reimbursed twice with public funds.
- Any income earned from investments of public funds (e.g. tuition) resulting from operations of approved programs.
- Interest earned on assets/fund balances in funds other than the general fund.
- State transportation aid, BOCES aid, and building aid when not applicable to a Dormitory Authority project.
- Excessive Teacher Turnover Prevention Grant.
- Tuition revenues from non-disabled students who are enrolled in integrated preschool special education programs.

- To verify that tuition is billed and the related revenue is accurately reported for all full time equivalent students as determined by audit.

Tuition rates are calculated on the basis of full-time equivalent student enrollment and therefore billing and reimbursement must be based upon full-time equivalent enrollment. Billing and payment procedures based on actual student attendance are not acceptable practices

- To determine if costs related to tuition rates are allowable through verification of supporting documentation, appropriateness of allocation methodologies, and compliance with the Reimbursable Cost Manual.

To qualify as allowable costs, expenditures should comply with the applicable SED RCM. The RCM is periodically revised and updated by SED. It is used to define reimbursable costs for specific years. Like the CFR manual, auditors should ensure that they are using the RCM that is applicable to the year(s) being audited. It can be located at:

[http://www.oms.nysed.gov/rsu/Manuals\\_Forms/Manuals/RCM/home.html](http://www.oms.nysed.gov/rsu/Manuals_Forms/Manuals/RCM/home.html).

- Costs are reported and summarized on the CFR-1, with personal service costs initially reported on the CFR – 4 and administrative costs reported on the CFR-3. All of the various costs should be subject to selection for testing.
- The RCM has specific definitions of which each auditor should be aware.
- The RCM defines cost principles for expenses that are considered for reimbursement provided such expenses are reasonable, necessary, directly related to the special education program and are sufficiently documented.
- The “Cost Principles” section lists various costs and explains whether they are reimbursable or not.
- The “General Requirements” section further explains various costs and appropriate documentation supporting those costs.

In addition to the specific requirements of the manual, costs must directly relate to education of preschool children with disabilities who are placed at such approved preschool program pursuant to section 4410 of the Education Law; and be reasonable and necessary to provide an appropriate education.

#### Other considerations

- Overhead and agency administration expenses allocated into the programs are based on a methodology that is equitably applied.
- Expenses that benefit more than one program should be allocated in a manner that best represents actual usage/benefit to the program(s) and is applied consistently between programs. Recommended methodologies are outlined in Appendix J of the CFR Manual.
- Each schedule in the CFR is designed to capture specific information attributable to the service provider. For instance, the CFR-3 is used to capture agency administration costs that are not directly related to specific programs, but are attributable to the overall

operation of the agency and should be audited as part of any engagement. The total agency administration costs are automatically allocated to all of the programs reported in the CFR using the ratio value method.

- Any audit engagement should entail a segment that examines the CFR-5 schedule. It is used to report all transactions, including compensation, between the reporting entity, its affiliates, principal owners, management and members of their immediate families and any other related party (including an organization) that has the ability to significantly influence management or operating policies of the other to the extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.
- Record Retention Section 200.9 (d) of the Commissioner's Regulations requires entities operating approved programs to retain all pertinent accounting, allocation and enrollment/attendance records supporting reported data directly or indirectly related to the establishment of tuition rates for seven years following the end of each reporting year. Information relating to the acquisition of fixed assets, equipment, land or building improvements and any related financing arrangements and grants must be retained as long as the facility is used by any education program the provider operates if this period exceeds seven years.

## **Suggested Audit Report Outline**

### I) Introduction

Background

Objective, Scope and Methodology

Statement on Auditors Compliance with Generally Accepted Government Auditing Standards

A Summary of the views of responsible Agency officials

### II) Direct Care - Personal Service Costs

Include a detailed description of the results of this section of the audit. This section should describe the results, findings and conclusions regarding whether expenses are properly reported in accordance with applicable guidelines and regulations, and if costs related to tuition rates are adequately supported and justified as allowable costs. In narrative format, the report should describe the audit findings and any recommended disallowance. The narrative should include the elements of an audit finding and recommendations for improvement.

### III) Direct Care - Other than Personal Service Costs

Include a detailed description of the results of this section of the audit. This section should describe the results, findings and conclusions regarding whether expenses are properly reported in accordance with applicable guidelines and regulations, and if costs related to tuition rates are adequately supported and justified as allowable costs. In narrative format, the report should describe the audit findings and any recommended disallowance. The narrative should include the elements of an audit finding and recommendations for improvement.

### IV) Agency Administration – Personal Service Costs

Include a detailed description of the results of this section of the audit. This section should describe the results, findings and conclusions regarding whether expenses are properly reported in accordance with applicable guidelines and regulations, and if costs related to tuition rates are adequately supported and justified as allowable costs. In narrative format, the report should describe the audit findings and any recommended disallowance. The narrative should include the elements of an audit finding and recommendations for improvement.

### V) Agency Administration – Other than Personal Service Costs

Include a detailed description of the results of this section of the audit. This section should describe the results, findings and conclusions regarding whether expenses are properly reported in accordance with applicable guidelines and regulations, and if

costs related to tuition rates are adequately supported and justified as allowable costs. In narrative format, the report should describe the audit findings and any recommended disallowance. The narrative should include the elements of an audit finding and recommendations for improvement.

VI) Enrollment and/or Units of Service

Include a detailed description of the results of this section of the audit. This section should describe the results, findings and conclusions regarding the accuracy of the reported full time equivalent enrollment and/or units of service used in the calculation of tuition. In narrative format, the report should describe the audit findings and any recommended disallowance. The narrative should include the elements of an audit finding and recommendations for improvement.

VII) Revenue Offsets

Include a detailed description of the results of this section of the audit. This section should describe the results, findings, and conclusions regarding the accurate offset of applicable revenue against reimbursable expenses as mandated by Section 4401 of the Education Law. In narrative format, the report should describe the audit findings and any recommended disallowance. The narrative should include the elements of an audit finding and recommendations for improvement.

**Report Appendix A Table - Audit Cost Adjustments by Program and Year**

Includes claimed, disallowed, and final audited costs.

**Report Appendix B Table - Audit Adjustments Enrollment and/or Units of Service by Program and Year**

Includes reported, additions/subtractions per audit and final audited total.

**Report Appendix C Table - Audit Adjustments Revenue Offsets by Program and Year**

Includes reported revenue, audit adjustments, and final revenue.