

AUDIT PROGRAM
NEW YORK CITY DEPARTMENT OF EDUCATION
OFFICE OF AUDITOR GENERAL
PRESCHOOL CENTER-BASED AND SPECIAL EDUCATION ITINERANT TEACHER PROGRAMS

INTRODUCTION

Background and Purpose

Under the authority of Section 200.18 of the Regulations of the Commissioner of Education, the New York City Department of Education (“Department”) Office of Auditor General (“OAG”) conduct audits of New York State Department of Education (“NYSED”) approved special educational programs for preschool-age students (“ASEP”) to determine whether costs charged to the tuition-based program in the ASEP’s Consolidated Fiscal Report(s) (“CFR”) are reasonable, necessary, and directly related to the program, supported by documentation, appropriately allocated, and allowable under Article 89 of the Education Law, the Regulations of the Commissioner of Education, Reimbursable Cost Manual (“RCM”), New York City Department of Education Non-Exclusive Requirements Agreement for the Provision of Services for Preschool Students with Disabilities (“Agreement”), and other applicable guidelines.

New York State Education Law section 4410 (“section 4410”) sets out the process by which preschool center-based programs and Special Education Itinerant Teacher (“SEIT”) services are approved by NYSED; the requirement that ASEPs submit a CFR to the NYSED Rate Setting Unit (“RSU”) certifying the applicable year’s revenue, expenditures and full-time equivalent (“FTE”) center-based student enrollment/units of SEIT service for the purpose of setting tuition and SEIT session rates; and the rights and obligations of municipalities within the state-set structure. In that latter respect, the law requires that municipalities contract with ASEPs in which resident preschool students with disabilities are placed.

In the case of Department-placed students, to the extent permitted by state law and regulations, the terms of the Agreement control the relationship between the Department and ASEPs, including the frequency of center-based program tuition and units of SEIT service payments to ASEPs and the requirement that ASEPs certify their ten-month and two-month student enrollment on a Certified Monthly Roster (“CMR”) during the school year and on a Final CMR at the close of the school year as preconditions to payment. The CMR, which resides in the Bureau of Non-Public School Payables (“NPSP”) vendor portal, is a component of CAFS, which is NPSP’s fiscal analog to the Department’s electronic special education student tracking system, CAP

In most circumstances, the audit tests outlined below will apply. However, depending on conditions in the field and identification of issues that are not addressed in this plan, certain of the steps may not be required. Additionally, if the results of audit tests point to material errors, or if the conditions uncovered suggest that further review is needed, the field auditor should consult with the audit

supervisor to determine whether the sample should be expanded or additional tests should be applied. It is also understood that, if at any time during audit implementation, issues arise that require immediate remediation or impact the health or safety of students and/or staff, immediate notice must be given to the audit supervisor.

NOTE: a) Generally, the tests that follow require sample selection. The sample sizes and sampling method should be guided by judgment. In no case, however, should the sample be less than ten percent of the total reported in a particular cost category. b) Copies of financial and other records used to perform the audit must be made part of the audit work papers.

Audits will be conducted in conformity with generally accepted government auditing standards (the Yellow Book). At the conclusion of audit fieldwork, a draft report will be prepared. ASEPs will be given an opportunity to review the draft audit report, meet with audit team, and submit a written response before the report is finalized in accordance with section 200.18 of the Commissioner's Regulations. The ASEP's written response will be attached to the final audit report that will be sent to SED for its determination whether recommended findings and disallowances will be accepted and used to calculate an audited rate.

OBJECTIVES

The over-all objectives are to determine:

- Whether expenses are properly reported and supported in accordance with applicable guidelines and regulations, including the applicable SED Reimbursable Cost Manual ("RCM"). **NOTE:** The RCM must be used as the determinant whether costs reported in the CFR are allowable. In any case where it is not clear whether a reported cost is consistent with RCM guidelines, the auditor must consult with the audit supervisor who may seek clarification from the RSU.
- Whether expenses were incurred in furtherance of the preschool program approved pursuant to section 4410, and are necessary, reasonable and, if applicable, fairly allocated;
- Whether the reported full time equivalent enrollment and/or reported sessions used in the calculation of the tuition rate is accurate;
- Whether tuition was accurately billed; and,
- Whether all applicable revenue has been offset against reimbursable expenses as mandated by section 4410.

In the course of performing the audit, reported expenditures must be tested against the standards stated in the Background section, above. Additional audit guidance is provided in [the Appendix to the New York State Consolidated Fiscal Reporting and Claiming Manual](#).

BEFORE THE ENTRANCE CONFERENCE

Pre-audit engagement. Before each audit engagement, it will have been determined by the audit supervisor that neither another municipality nor the state had performed a fiscal audit of the same services or programs for the same fiscal year(s). Upon consultation with NYSED it will further have been determined whether other municipalities had financial responsibility for the services or programs

to be audited. If so, the municipalities will have been contacted to discuss areas of concern that should be examined through the audit.

Pre-entrance conference. Assigned audit staff will

- Obtain from the Department’s payables, special education program, and grants offices for applicable school years:
 - Latest tuition payment reconciliation reports
 - ASEP’s Section 611 and 619 grants (“IDEA”) budget, narrative and expenditure report(s); record of DOE disbursement(s) to ASEP
 - STAC Report
- Compare reported FTEs/units of service with Department enrollment data noting any discrepancy.
- Review and compare the financial statements and CFR noting any discrepancies.
- Note for follow-up whether related party transactions are reported in the CFR or financial statement.
- Prepare a comparative summary of costs reported in the CFR for the audited year, prior year and/or subsequent year. Review and identify significant increases within cost categories for follow up during the audit.

For production by the ASEP at the entrance conference. The notice of audit engagement will include the following list of documents to be produced at the entrance conference:

- Organization chart
- List of teachers, aides and direct care consultants by assignment
- ASEP’s policy and procedures manual
- Collaborative Agreement(s), if applicable
- Calculation of student FTE enrollment
- 10-month and 2-month program calendars
- The location and hours of operation of all programs, including non-special education programs, operated by the ASEP
- Bank accounts and national credit cards used by the ASEP for reported expenditures
- General Ledger; Trial Balance with year-end adjusting, reversing entries.
- Work papers cross-referencing the general ledger to CFR cost categories
- Cash receipts, disbursements journals and subsidiary ledgers
- Depreciation schedule
- List of grants
- Payroll register; Forms 941 and NYS 45
- Forms 1099 and 1096
- Forms 990, 1065 and 1120

- Insurance policies that cover the ASEP in whole or in part
- Rental agreement/mortgage documents
- Completed OAG “Internal Control Questionnaire” (“ICQ”) with supporting records as applicable.
- Written allocation methodology for each cost category with shared costs

GENERAL AUDIT PROCEDURES: The following audit procedures are to be completed before conducting a detailed test of accounts.

- A. Review the general ledger, trial balance, auditor’s lead schedules and financial statements to obtain an understanding of the type of costs posted and how cost categories are classified and reported in the financial statement and CFR, and to identify any cost category that is not otherwise defined in this audit program.
- B. Determine whether the ASEP maintained subsidiary ledgers for each program reported in the CFR; if not, note the condition and obtain from the ASEP an understanding of how program costs were assigned.
- C. Determine from a review of the general ledger and accountant’s work papers whether adjusting entries (accruals, corrections or reversing entries) were made on the adjusted trial balance. Request documentation for the adjustments, if any. Note any instance of a liability that was reversed or eliminated at year end and reinstated at beginning of the next period.

NOTE: In the case of a cost category that is not addressed in the audit program, the audit supervisor should be consulted.

I. ENROLLMENT

AUDIT OBJECTIVE

To determine whether the number of Department-placed full-time equivalent (“FTE”) center-based program students and/or units of service for SEIT program students were reported accurately and in accordance with Regulations of the Commissioner section 175.6.

AUDIT PROCEDURES

- A. For each program, select a sample of students from the report of disaggregated FTEs/Units of service submitted by the ASEP to the OAG pursuant the Agreement; the sample size will be determined judgmentally, but in no event will it represent less than 10 percent of the reported student population. The sample should comprise students that are reported as enrolled for a full school year, those enrolled for less than a full school year, and any student for whom the Department’s payment records and ASEP’s enrollment report do not match.

- B. Confirm the first and last dates of enrollment from the ASEP's attendance records. Center-based programs are required to maintain daily student attendance; SEIT encounter attendance should be available through the direct service providers' service records.
- C. With reference to the letter of approval for each student (which will be obtained from the ASEP), ascertain whether the students' enrollment period is within the authorization period.
- D. For each less-than-full-time equivalent student compute the FTEs referencing the guidance in the Note, below, and compare with the reported FTEs.

NOTE: A student's enrollment period may begin or end with a legally excused absence. Refer to [Regulations of the Commissioner section 175.6](#) for the definition of a legally excused absence.

Calculating the FTE for center-based programs: A student is counted as full-time (1.000 FTE) unless enrolled after the start of the school year or discharged before the end of the school year. Full-time equivalent (FTE) enrollment for students enrolled less than the maximum period of enrollment, is calculated as follows:

- Determine the number of weeks the child is actually enrolled. To establish the first and last weeks of the enrollment period the following rules pertain:
 - Three consecutive days of enrollment within the same (first or last) week are equivalent to one week of enrollment; the weeks in between are counted as full weeks subject to the following:
 - For the 10-month program no more than four weeks of enrollment may be counted in any calendar month. When counting the total number of weeks in the 2-month program, you may count more than four weeks in a month.
 - Determine the FTE to three decimal places (do not round) by using the proportion between the actual number of weeks a student is enrolled divided by the number of weeks in the program.
- E. Prepare a summary adjustment schedule for any FTE discrepancy.

SEIT NOTE: Calculating the Units of Service for SEIT programs: All SEIT sessions recommended on a student's IEP are counted for purposes of determining units of service within a student's enrollment period regardless of service delivery.

The ASEPs' contract with the Department runs for five years. The most recent contract covers July 1, 2012 through June 30, 2017. If the audited year(s) predates that contract, a student's SEIT enrollment period for purposes of calculating units of service should be determined by using same methodology employed by the ASEP to report units of service, as long as it is consistent with Regulations of the Commissioner section 175.6. If the audit period is within the term of the contract, a student's SEIT enrollment period for purposes of calculating units of service is determined as follows¹.

¹ The student's SEIT enrollment start date and recommendation for frequency of service determine the number of mandated sessions that can be reported for the first week. If the student's first week of service does not include a

- The student’s SEIT enrollment start date, recommendation for frequency and duration of service determine the number of mandated sessions that will generate payment for the first week. If the student establishes enrollment on a Monday, Tuesday or Wednesday, the full number of mandated sessions for that week shall generate payment, notwithstanding the student’s actual attendance after the enrollment start date.
 - A student’s SEIT enrollment end date, recommendation for frequency and duration of service determine the number of mandated sessions that will generate payment for the last week. If a student's enrollment period ends on a Wednesday, Thursday or Friday, the full number of sessions for that week will generate payment.
- F. For each student in the sample, calculate the number of weeks within the enrollment period and multiply that by the number of mandated sessions per week referencing the SEIT Note, above, and compare with the student’s unit of service included in the SEIT report.
- G. Prepare a summary adjustment schedule for any unit of service discrepancy.

II. ONE-TO-ONE AIDES

AUDIT OBJECTIVE

To determine whether the ASEP accurately reported the number of 1:1 aides assigned to its center-based program students.

Request from the Department’s Office of Revenue Operations the name and OSID of all center-based program students who have been recommended for 1:1 aides as reported to SED’s STAC system. Compare the STAC information with the provision of 1:1 aide service as reported in the ASEP’s Final Certified Monthly Roster.

Audit Steps

- Note whether the ASEP reported 1:1 aide service in the CMR for any student who did not appear on the STAC roster. If the student does not appear in STAC as recommended for 1:1 aide service, obtain the student’s IEP for the period of audit and determine whether the student was

sufficient number of days to allow implementation of the mandate for the week, the sessions must be prorated. For example, if a student who is recommended for SEIT service three days each week establishes enrollment on a Monday, Tuesday or Wednesday, the full number of sessions for that week should be reported, notwithstanding the student’s actual attendance after the enrollment start date. Conversely, if the enrollment start date were a Thursday or Friday, only two sessions (if Thursday) or one session (if Friday) for that week can be reported. Similarly, a student’s SEIT enrollment end date and recommendation for frequency of service determine the number of mandated sessions that can be reported for the last week. Using the same example, as in (1), above, if a student's enrollment period ends on a Wednesday, Thursday or Friday, the full number of sessions for that week can be reported. Conversely, if the enrollment end date were a Monday or Tuesday, only one session (if Monday) or two sessions (if Tuesday) for that week can be reported.

recommended for a 1:1 aide. If not, note the discrepancy. If the student was recommended for that service, obtain from the ASEP the record of approval for provision of 1:1 aide service.

- If the audit period is before July 1, 2012, obtain from the ASEP the name of each 1:1 aide and the student to whom the aide was assigned. Obtain from the ASEP the aide's records of time and service to validate the assignment. Beginning July 1, 2012 ASEPs were required to report the beginning and end dates of 1:1 aide service separately on the CMR. Therefore, if the audit period is after that date, obtain from the ASEP the aide's records of time and service and compare that information to the ASEP's report of service period and assignment on the CMR.
 - A. Determine which students, if any, were assigned a 1:1 aide. For each aide perform the following:
 - B. Review the student's IEP to determine whether a 1:1 aide was recommended.
 - 1. Review aide's time and service records to determine whether those records support that the aide provided service to the student.
 - 2. Compare beginning and end dates of the aide's employment/assignment with the student's enrollment period and attendance record.
 - 3. Using NPSP records of payments, confirm that the payment for the 1:1 aide did not exceed the Regional Rate approved by SED.

III. REVENUE

AUDIT OBJECTIVE

To ascertain whether revenue has been reported accurately.

NOTE: Refer to Reimbursable Cost Manual Appendix A-1 for categorization of revenue and to determine the type of revenue which should be reported as offsetting.

AUDIT PROCEDURES

- A. For each preschool special education program for which the Department pays tuition and grant funds, trace the Department's payments to the ASEP's General Ledger to confirm that revenue was properly posted. Compare total program revenue with revenue reported in the CFR. Report any discrepancies.
- B. Review the General Ledger and bank accounts to determine whether additional sources provided funding in support of the preschool special education program (for example, a private bequest that is directed to the special education program or overall agency administration). With reference to the CFR, determine whether that revenue was accurately reported.
- C. Interest income is a common source of non-tuition revenue. Using the bank account information already obtained, determine whether the ASEP received interest income, and, if so, whether the interest was accurately recorded in the general ledger and reported in the CFR.

NOTE: If the ASEP received interest income, analyze the source of principal (*i.e.* is it preschool funds or other funds). If the principal is derived from preschool program revenue only, 100% of

the interest income should have been attributed as revenue for the preschool program. If the interest is derived from preschool and other sources of funding, determine whether the revenue was fairly allocated.

- D. If the financial statement and/or general ledger indicate that the ASEP has made a loan, ascertain the source of the funds through interviews and bank records. Additionally, ascertain whether the borrower is a related party; review the loan agreement to determine the terms for repayment, whether interest was charged and if so, whether the interest was reported and whether the loan has been repaid. **NOTE:** The existence of such loans should be reported to the audit supervisor.

IV. ALLOCATION METHODOLOGY

AUDIT OBJECTIVES

Verify the reasonableness of the methodology used to allocate costs among programs that benefited from the expenditures and, referencing supporting documentation, determine whether the expenditures are supported and accurately assigned.

AUDIT PROCEDURES

- A. Ask the ASEP to identify by category which costs, if any, were allocated on the CFR and to provide the written cost allocation methodology. Even if the latter is not produced (a condition that should be noted), as the auditors conduct tests in the individual cost categories, the following procedures should be included:
 - 1. Determine whether the allocation was made among all the programs that benefited from the cost.
 - 2. Determine whether the basis for allocating costs was reasonable, e.g., in the case facility costs, a reasonable basis would be the use by square footage of the space; direct care providers' costs would be allocated according to hours worked in each program; the number of students in each program would provide a reasonable basis for allocating the cost of instructional supplies. If the auditor is unsure of the appropriate methodology the audit supervisor should be consulted.
 - 3. If the methodology used was reasonable, independently calculate the percentage that was charged to the section 4410 program. Compare the result with the actual reported allocation.

V. ACCRUALS

AUDIT OBJECTIVE

If accruals were posted in the ledger, the objective is to determine whether they were reasonable, appropriately recorded and supported.

AUDIT PROCEDURES

- B. Determine whether material accruals are identified in the general ledger expenditures accounts.
- C. Examine invoices to determine if the expense was obligated before the fiscal year ended.
- D. Request copies of canceled checks to determine that the accruals were paid.
 - 1. Post to schedule of disallowed costs if the expense:
 - a. was not paid in subsequent period, or
 - b. the date of the invoice or the period of service rendered was not in the audited year, or
 - c. the expense did not meet RCM guidelines and/or was unnecessary and/or was unreasonable.

VI. PERSONAL SERVICES - PAYROLL

AUDIT OBJECTIVE

To determine whether the ASEP accurately reported, and can support, personal services expenditures.

AUDIT PROCEDURES

- A. Reconcile personal service costs reported on the payroll tax form to the general ledger and the CFR. In the case of discrepancies, review the accountant's workpapers for adjusting entries to salaries.
- B. Using the organization chart, trace the administrators, teachers and aides to the payroll register. Note discrepancies.
- C. Note whether payroll is timed irregularly or whether the frequency of payroll has changed from bi-weekly to monthly.
- D. Follow up with the Executive Director whether the ICQ was complete and accurate. Ask the Executive Director to identify any staff or administrators who were related by blood or marriage to the ASEP's Officers, Executive Director and other high managerial agents.
- E. Determine whether the SED-approved classroom staffing ratios have been met.
- F. Staff may work for more than one of the ASEP's programs (*e.g.*, a teacher or speech therapist employed by the center-based program in the morning and the SEIT program in the afternoon) or for the ASEP and its related services agency (*e.g.*, a speech therapist who is employed by the center-based program and by the owner's private related services agency). For any employee who works for the ASEP and also receives salary or fees from another program or related entity, determine the number of hours worked in each program and the total compensation. Determine whether the salary is reasonable and has been appropriately allocated.

- G. Select a sample that includes the Executive Director, Assistant Executive Director and Chief Financial Officer, and any position reported in more than 1 job, even if the total FTE is less than 1.0. The sample should also include selected support staff teachers, teacher aides, substitutes, 1:1 aides, related service providers, and staff and administrators who are related by blood or marriage to an Officer, Executive Director and/or other high managerial agent.

For the sampled staff:

- H. Determine whether the classification of positions is correct through review of written job descriptions or, in their absence, information provided by the Executive Director and the staff member. Note whether staff that were reported as direct care are functioning in whole or in part in an administrative capacity and determine the percentage of time spent in each role.
- I. Determine whether the sampled staff members are appropriately credentialed for the position in which they serve or have the educational background/skills necessary to carry out their responsibilities. For example:
1. At least one administrator per site must hold a School Administrator and Supervisor ("SAS") certificate.
 2. Teachers and related service providers must be licensed by the SED (New York State Education Department Office of the Professions <http://www.op.nysed.gov/opsearches.htm> Questions regarding appropriate licensure should be directed to the SED Office of Special Education.
 3. Teaching Assistants provide instructional services to students under the general supervision of a licensed or certified teacher. They must be certified by SED.
 4. Teacher Aides perform non-instructional duties under supervision. They do not have to be certified, but must have a high school diploma.
- J. Select checks from two payroll periods and trace the amount paid to the payroll register. Examine the check endorsement. If any checks were endorsed by both the employee and the supervisor or administrator, note that condition and discuss with the employee.
- K. Request time records for the sampled employees and, with reference to the payroll records, determine whether the time worked supports the salary paid.
- L. Calculate the total cost of the employees' compensation including fringe benefits and determine reasonableness. In the case of the Executive Director, the Assistant Executive Director and the Comptroller the salary should be measured against the regional median compensation set by NYSED for the applicable year. Calculate and report the net excess compensation.
- M. For positions other than those covered in Step 11, above, reasonable salary may depend on the staff member's job description and qualifications, which should be available in the personnel file. If it appears that the staff member does not have the appropriate qualifications for the position, the auditor should consult with the audit supervisor who will contact the Department's Division of Human Resources to determine the appropriate Department-based position and pay scale. Calculate and report the net excess compensation.

VII. PERSONAL SERVICE - NON-MANDATED FRINGE BENEFITS TESTS

- A. Identify and trace reported health insurance, pension and any other non-mandated fringe benefit costs to the ASEP's ledgers. Refer to the RCM section for limitation of fringe benefits reimbursement.
- B. Identify employees who are covered by health benefits and the pension plan. Using the program's organization chart and payroll, determine that the employees are entitled to those benefits and that the benefits are fairly assigned. The audit supervisor should be consulted if questions arise as to fairness.
- C. Identify whether fringe benefits costs charged to the program include IRA or KEOGH plan payments, which are not considered fringe benefits, but are salary expenses subject to applicable tax rules.
- D. Select a sample of non-mandated fringe benefits transactions and test to confirm that the costs were incurred and properly allocated. Include in the sample staff that serve in multiple capacities; include as well all cases where the benefits appear to be excessive or involve a significant employer contribution or are available only to selected administrators.

OTHER-THAN-PERSONAL SERVICES

VIII. TRAVEL EXPENSE

Travel costs include costs of transportation, lodging and subsistence incurred by employees in travel status on official school business. Reimbursement for such travel costs shall be consistent with Bulletins issued by the N.Y.S. Division of the Budget and the Office of the State Comptroller.

AUDIT OBJECTIVE

To determine if travel expenses are directly related to the preschool program, allowable under the applicable RCM, and supported by adequate documentation.

AUDIT PROCEDURES

- A. Select a sample of travel expenses for testing.
- B. Determine that the travel expense was incurred for employee(s), not consultant(s).
- C. Reference the RCM for the particular category of travel expenditure and determine whether applicable standards have been met. **NOTE:** In-state and out-of-state meal and lodging allowances and per diem rates are available on the State Comptroller's website at: <http://www.osc.state.ny.us/agencies/travel/travel.htm> under "NYS Travel Guidelines."
- D. Review documentation supporting the expenses, including itemized receipts and travel logs that identify the person(s) traveling, destination, dates and purpose of travel. If travel was to a conference, documentation should include the conference agenda and a copy of sign-in sheet.

IX. INSTRUCTIONAL AND OFFICE SUPPLIES & MATERIALS

AUDIT OBJECTIVE

To determine that all reported expenses for supplies and materials are reasonable, necessary and related to the preschool programs.

AUDIT PROCEDURES

- A. Select a minimum sample of 10% of the expenditures.
- B. Determine if the expenditures are allowable under the RCM and are reasonable and necessary. For example, while a wastepaper basket is allowable within the category of supplies, one that costs \$300 is neither reasonable nor necessary.
- C. Determine whether the costs have been appropriately allocated. **NOTE:** In the case of instructional supplies and materials, an acceptable methodology is allocation based on the number of students in each program that benefit from the expense; if the ASEP used one that is different, consult with the audit supervisor.
- D. Verify that expenditures are supported by adequate documentation.
- E. Note whether a substantial expense within this category was incurred at the end of the school year.

X. DEPRECIATION/ AMORTIZATION

Depreciation: Buildings, furniture, equipment and vehicles having a unit cost of \$5,000 or more and an estimated useful life of two years or more must be capitalized. Group purchases of similar items (*i.e.*, furniture, small tools, etc.) or separate purchases of similar items in the same fiscal year totaling \$5,000 or more should be treated as a single unit purchase.

Amortization: Except for goodwill (the stated value of a business in excess of its book value), intangible and tangible assets such as leaseholds, leasehold improvements, organization expenses and mortgage expenses must be amortized in accordance with the guidelines in the RCM for each category.

AUDIT OBJECTIVE

To determine whether the reported depreciation/amortization expense is reasonable, properly supported and within the RCM standards for such expenditures.

NOTE: Mortgage-related expenses such as attorney's fees, recording costs, transfer taxes, finder's fee and placement fees are amortized over the term of the mortgage.

AUDIT PROCEDURES

- A. Obtain itemized depreciation/amortization schedule from the ASEP. Consult with the audit supervisor to determine whether all items or a sample should be tested.
- B. Obtain original invoices and trace them to the schedule.

- C. Determine whether depreciation/amortization expense is calculated using the straight line method and in conformity with the CFR Manual regarding estimated useful life.
- D. As practical, perform a physical observation of depreciable items.

XI. VEHICLE EXPENSE

AUDIT OBJECTIVES

To determine whether vehicle costs allocated to the preschool program are supported and meet RCM guidelines.

NOTE: Vehicle use must be documented with logs that include the date, time of travel, purpose of the trip, and name of the person who used the vehicle.

AUDIT PROCEDURES

Select a sample of vehicle expenses. For the sample:

- A. Obtain the vehicle logs and determine whether they include the date, time of travel, to and from destinations, mileage between each, purpose of travel and name of traveler. If the vehicle was assigned to an employee, that individual must be identified by name and title. Further, obtain from the ASEP the summary of annual mileage for program purposes and associated repairs and maintenance costs (with supporting documentation) for each vehicle. **NOTE:** If any of the requested items are not produced, the entire reported vehicle expense should be disallowed. In addition, the auditor should consult with the audit supervisor to determine whether the sample should be expanded.
- B. If the items above have been produced and meet RCM standards:
 - 1. Obtain supporting records for the cost of the vehicle, including those evidencing the date purchased, cost, make, model, vehicle ID # and year of the vehicle. If vehicles were rented or leased, a copy of the dated rental agreements or leases should be obtained.
 - 2. If reported costs include those incurred for parking, gasoline and/or tolls, obtain supporting documentation and determine reasonableness. **NOTE:** All costs associated with commuting from home to the site should be disallowed.

XII. ADVERTISING

AUDIT OBJECTIVE

To determine whether reported expenses meet RCM guidelines.

AUDIT PROCEDURE

Select a sample

- A. Obtain supporting records, including copies of the advertisement.
- B. With reference to the RCM, determine whether the advertising expenditures are allowable .

XIII. RENT

AUDIT OBJECTIVE

To determine the allowability of rent/lease expense.

Note: Interest and depreciation expenses calculated in accordance with the requirements of the RCM are reimbursable. However, the principal portion of a mortgage payment is never reimbursable.

AUDIT PROCEDURES

- A. Obtain the rental agreement and determine whether the term of the agreement, type of lease, and amount charged to period of lease are reasonable. NOTE: Reasonableness may need to be evaluated with reference to fair market value of similar properties in similar neighborhoods. If there is an issue concerning reasonableness, the audit supervisor should be consulted. In addition, if it is not clear from the name whether the owner of the property is related to the ASEP, the Executive Director should be interviewed. If a related party transaction is determined, refer to the RCM for rent limitations in a less-than- arms-length transaction and test accordingly.
- B. If the school has multiple programs and/or shares the premises with a related operation or, in the case, for example, of an integrated class program, a program funded other than with section 4410 funds, determine if the percentage charged to preschool is allocated properly.

XIV. REPAIRS AND MAINTENANCE

NOTE: Costs incurred for necessary maintenance, repair or upkeep of property that neither add to the permanent value of the property's usefulness nor appreciably prolong its intended life, but keep it in efficient operating condition, are reimbursable to the extent that they are not otherwise included in rental or other charges.

Costs incurred for necessary repair or maintenance of office, stationary or movable equipment that keeps the equipment in an efficient operating condition, are reimbursable. Refer to the RCM for additional guidance.

AUDIT OBJECTIVES

To determine whether expenditures charged to repairs and maintenance meet RCM standards.

AUDIT PROCEDURES

Obtain supporting records for a sample of reported expenses.

XV. ENTERTAINMENT AND PERSONAL EXPENDITURES

Costs incurred for entertainment of officers or employees, or for activities not related to the program, or any related items such as meals, lodging, rentals, transportation and gratuities, are not reimbursable. Additionally, personal expenses, such as personal travel expenses, laundry charges, beverage charges, gift certificates to staff and vendors, flowers or parties for staff, holiday parties, repairs on a personal vehicle, or rental expenses for personal apartments are not reimbursable unless specified otherwise in the RCM.

AUDIT OBJECTIVE

To determine whether entertainment costs and personal expenditures meet RCM standards.

AUDIT PROCEDURES

Select a sample from transactions in the general ledger that are or appear to be posted in the category of entertainment or personal expenses; obtain and review supporting documentation.

XVI. PURCHASE OF SERVICES (CONSULTANTS)

AUDIT OBJECTIVE

To determine if fees paid to independent contractors meet RCM standards.

NOTE: Consultants are not entitled to fringe benefits or bonuses. Further, SEIT service cannot be provided by a consultant.

AUDIT PROCEDURES

For direct care consultants (including professional development providers)

- A. Select a sample of expenditures. Include within the sample any consultant who is related by blood or marriage to school officers/owners/directors/high managerial agents as reported in the ASEP's ICQ.
- B. For the sample, examine, as applicable, bids, contracts, invoices and other documentation to ascertain whether
 1. Documentation meets the criteria of the RCM.
 2. Fees are reasonable for such services.
 3. The consultant has the necessary background/experience/credentials to provide the service.

4. Services are documented. If a deliverable is required by the contract, determine whether it has been completed within the terms of the contract.
- C. Determine if any consultants worked for other programs. If so, determine if allocations are reasonable.

For non-direct care consultants (e.g., accountants, lawyers, and technology consultants)

- A. Select a sample of expenditures. Include within the sample any consultant who is related by blood or marriage to school officers/owners/directors/high managerial agents as reported in the ASEP's ICQ.
- B. Determine if any consultants worked for other programs. If so, determine if allocations are reasonable.
- C. Examine billing and time records to determine that the bill specified the nature of actual services rendered and the dates of services were provided.
- D. If a deliverable was required by the consulting contract, determine whether the school received the deliverable within the terms of the contract.

XVII. INTEREST EXPENSE

AUDIT OBJECTIVES

To ascertain that interest expense for any loan made to the ASEP is reasonable, documented and meets RCM guidelines.

NOTE:

- The RCM sets out the rules for interest costs resulting from less-than-arm's-length loan transactions.
- ASEPs cannot expense interest for working capital loans if the CFR was not filed timely.

AUDIT PROCEDURES

- A. Obtain and review loan agreements to ascertain the parties, principal, interest rate, and other terms and conditions of the loan. Note whether the loan involves related parties.
- B. Determine
 1. Whether the loan was necessary for the school's operation of the program. **NOTE:** Under the terms of the Agreement, ASEPs are paid regularly by the Department. Generally, the regular payments should provide sufficient cash flow to operate the program. Therefore, it is important to obtain a clear picture of the conditions that necessitated the loan.
 2. Whether the amount borrowed and interest rate charged is reasonable.

3. Whether the reported interest expense accrued in the audited school year.
- C. Confirm that 100% of loan repayment proceeds were deposited. Obtain bank statements for verification.

XVIII. MISCELLANEOUS/"OTHER"

AUDIT OBJECTIVE

To ascertain whether expenses are appropriately posted to the general ledger miscellaneous category and/or are reported in the CFR category "Other" and are in conformity with the RCM.

NOTE: Miscellaneous expenses are those that do not fit into any other category for the operation of the program. They are reimbursable provided the expenses meet the cost principle criteria as discussed in the RCM. Only non-direct costs should be in the miscellaneous expense category.

AUDIT PROCEDURES

- A. Select a sample of miscellaneous expenditures and determine whether the costs are related to the program and documented.
- B. Determine whether the costs should have been reported in a specific cost category.

OTHER COST CATEGORIES

If there are cost categories in the general ledger that are not defined in this audit plan, determine the nature of the expenditures and consult with the audit supervisor to determine whether audit tests should be conducted.

XIX. IDEA VENDOR FUNDING

BACKGROUND

Federal Individuals with Disabilities Education Act (IDEA) funds flow to the state from the federal government as a grant the purpose of which is to supplement the programs of students with disabilities; LEAs are sub recipients of the grant. Under the terms of state law, LEAs are required to distribute a share of IDEA funds to ASEPs in an amount calculated by the state based on student enrollment information submitted by the ASEPs on a SEDCAR-1 form. The ASEPs are required to submit a budget and narrative (ASEP 10) and expenditure reports (ASEP 10F) to the Department. Funds are to be spent by the ASEPs consistent with the approved budget.

OBJECTIVE

To ascertain whether the SEDCAR I accurately reported the students enrolled by the BEDS date, that the ASEP's Final Expenditure Report has been fairly reported, and that the expenditures are consistent with the latest budget.

AUDIT PROCEDURES

A. Personal Service

Review the ASEP's [SEDCAR 1 form](#) and the supporting schedules to determine if the supporting schedules agree with the information reported on the form.

1. Select at least 15%, but not fewer than 20 students for each section in the form and ascertain that the ASEP only included students enrolled as of the BEDS date.
2. Match costs reported in the Budget with the Expenditure Report and record any discrepancies. Obtain the explanation for the discrepancies, if any, and select for testing any expenses that are listed in the Expenditure Report, but not in the Budget.
3. Trace costs reported in the Expenditure Report (in total) to the general ledger account for IDEA expenditures. If the general ledger does not lend itself to be compared to the Expenditure Report, request the lead schedules that were used to prepared the Expenditure Report.
4. Match costs reported in the ASEP-10F (in total) to CFR Federal Grants 611 and/or 619.

For personal services expenditures:

5. Using the payroll register, select a sample of professional staff and support staff whose salaries were reported in the Expenditure Report. Include in the sample any individual whose cost was included in the Expenditure Report but does not appear on the ASEP's Organization Chart.
 - a. Request time records and proof of payment for two pay periods. Record any exceptions.
 - b. Obtain a description of the duties of the reported staff and determine whether they were functioning as program staff or administrative staff.
 - c. Determine whether any staff had duties other than those required by the IDEA-funded position. If so, determine whether the costs associated with the IDEA position was properly allocated.

B. Other than Personal Services

Consultants

Using the general ledger, select a sample of consultants and request and review detailed invoices, proof of payments, contracts and bids (if applicable), and documentation of the nature of the service rendered by the consultant to determine whether the transactions are supported, consistent with budget approval and fairly allocated, if applicable.

Categories other than Consultants

Select a sample of transactions choosing at least one from every OTPS category, and request and review detailed invoices, proof of payments, contracts and bids (if applicable) to determine whether the transactions are supported, consistent with budget approval and fairly allocated, if applicable. Further, for each category, reference the audit procedures outlined above and perform any additional steps.