

**DEPARTMENT OF EDUCATION OF THE CITY OF NEW YORK  
OFFICE OF AUDITOR GENERAL  
PRIVATE SCHOOLS FOR CHILDREN WITH DISABILITIES  
SECTION 4410 FIELD REVIEW PROGRAM**

**BACKGROUND**

The New York City Department of Education (“NYCDOE”) engages Approved Special Education Providers (“ASEP”) within and outside New York City to provide education services to preschool students with disabilities pursuant to the “Non-Exclusive Requirements Agreement for the Provision of Service for Preschool Students with Disabilities” (“Agreement”). Only students who are recommended for preschool special education services by a Committee on Preschool Special Education (“CPSE”) can be enrolled in the School which is paid at rate set by the New York State Education Department (“NYSED”). NYSED reimburses the Board 59.5% of the tuition paid.

In most circumstances, the audit tests outlined below will apply. However, depending on conditions in the field certain of the steps may not be required. Additionally, the results of audit tests may point to material errors or the need for further review. In any of these situations, the field auditor should consult with the audit supervisor to determine an appropriate strategy for proceeding. 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:**

- Generally, the tests that follow require sample selection. Despite that the audit steps provide a recommended sample size for each individual test, the sample sizes and sampling method should be guided by judgment and consideration should be given to the viability of the agency’s internal control system.
- Copies of financial and other records used to perform the audit must be made part of the audit work papers.

**OBJECTIVES**

- Assess whether revenue and expenses are properly recorded in the ASEP’s general ledger and are supported in accordance with applicable guidelines and regulations, including the applicable NYSED Reimbursable Costs Manual (“RCM”).

- Assess whether the ASEP has controls in place over recording students' enrollment, provision of related services and calculation of students' full time equivalent enrollment and/or SEIT sessions.
- Assess compliance with selective terms of the agreement as detailed in the procedures below.
- Ascertain whether the ASEP's IDEA Final Expenditure Report has been fairly reported and that the expenditures are consistent with the approved IDEA budget related to that report.

**Note:** Although current expenses are not yet reported in the Consolidated Fiscal Report ("CFR") that will be submitted to the NYSED Rate Setting Unit ("RSU") for purposes of setting a tuition rate, the ASEP's financial records should identify expenses that are deemed reimbursable and therefore chargeable to the 4410 program(s) and those that are not.

## **SCOPE**

The review generally will cover current school year transactions and records though, in some instances, the review may include prior years' records.

**Note:** The audit tests have been designed to assess whether internal controls are in place, identify weaknesses and support recommendations for improvement. Review findings may be shared with NYSED's Rate Setting Unit for its consideration.

## **OVERVIEW**

- Under the terms of the Agreement, the ASEP must make its "staff, and premises, books, records, operations and Services . . . available to the Board and to any person, agency or entity designated by the Board, at any time, for program, audit, fiscal audit, inspection, sampling, observation, visitation, and evaluation . . ." Appendix A.26.C of the Agreement. In most instances, the field auditor will be directed by the audit supervisor to implement this review program without giving prior notice to the ASEP. When field auditors arrive at the ASEP's location, they are required to announce their presence to the on-site administrator.
- The audit supervisor will determine whether the review will be conducted upon prior notice to the ASEP. If notice is given, a "Checklist of Records" will have been provided to the school before the visit. When the field

auditors arrive at the ASEP's location, they should request the records indicated on the list from the on-site administrator. If the visit is made without notice, the field auditors will give the Checklist of Records to the site administrator and arrange a date for their submission.

- When field-testing occurs on a sample basis, and the test indicates material errors, or if the conditions uncovered suggest that further review is needed, the field auditors should consult with the audit supervisor to determine if the sample should be expanded or other action should be taken.

### **FOLLOW-UP**

Since the field review may uncover fiscal or compliance issues requiring immediate remediation, it is imperative that such field review findings be brought to the attention of the audit supervisor as soon as practical. As the situation warrants, referrals may be made to agencies outside the NYCDOE for their review and action.

A supervisor must be notified immediately if conditions posing a safety risk to students and/or staff are uncovered.

**For production by the ASEP either prior to or at the entrance conference depending on whether prior notice was given:**

1. List of programs operated by the ASEP and calendars
2. Organization chart
3. List of employees, with their social security number and job title. Specify classroom assignment for teachers and aides.
4. Register of attendance
5. List of students who established enrollment through a legally excused absence
6. Copies of all Request for Determination Regarding Student Status/Notification Regarding Student Absence without Establishing a Legal Absence ("RDNA") Forms submitted to the CPSE
7. General ledger for the current school year
8. Payroll register for the current school year
9. Bank statements and canceled checks for the current school year
10. Allocation methodology for the current school year, if applicable
11. Collaborative agreement(s), if any
12. Leases and floor plan
13. Internal Control Questionnaire

**For testing IDEA Final Expenditure Report**

14. General ledger for the prior school year and lead schedules that identify general ledger transactions reported in the ASEP's Final Expenditure Report.

**Obtain the following information from NYSED website:**

15. List of approved program(s), location(s) and classroom ratio (Student:teacher:paraprofessional)

**Obtain the following information from DOE Bureau of Non Public School Payables:**

16. Current year's Certified Monthly Rosters ("CMR")
17. ASEP's approved IDEA budgets, narratives and final expenditure reports for prior year.

## WORK PLAN

### BEFORE THE ENTRANCE CONFERENCE

**Pre-entrance conference.** Assigned audit staff will:

- Review and compare the latest financial statements and CFR filed with OAG and note any discrepancies.
- Note for follow-up whether related party transactions are reported in the CFR or financial statements.

### FIELD WORK

**Initial audit procedures.** Assigned audit staff will conduct a walkthrough of the ASEP's internal control system to document controls that are in place as described by management.

**Note:** Advise the audit supervisor immediately if it is determined that the ASEP does not maintain a general ledger.

#### **A. Enrollment**

**Objective:** To determine whether the ASEP has reported students' enrollment start and enrollment end (if applicable) in accordance with Regulations of the Commissioner section 175.6.

- 1) For each program, request the list of students who established enrollment through a legally excused absence. Select five or more students who met this criterion. In addition, for each approved program, select an additional sample of students to bring the total sample for the 2-month program to 10 students and for the 10-month program<sup>1</sup> to 20 students, and perform the following:
  - a) Ask the ASEP to produce the Preschool Authorization Letter ("PAL") to confirm that the students are authorized to attend the program. Note the start and end dates for the period of authorization, if included in the PAL.

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<sup>1</sup> If total sample exceeds 60 students, discuss the sample size with your supervisor before finalizing the sample selection. In addition, if the result of your testing identified a high number of errors, discuss your audit results with your supervisor before that test is finalized.

**Note:** OAG is advised that PALs are issued at the beginning of a student's assignment to a school or if the IEP changes the program recommendation.

- b) Compare the first attend date on the CMR with the first attend date, or legally excused absence<sup>2</sup> if that is the first entry, for each sampled student in the ASEP's Register of Attendance. A legally excused absence must be documented.
- c) Review the Register of Attendance to determine whether any sampled student had been discharged during the school year. In any case where that occurred, determine whether the CMR reflects that discharge date.
- d) Review the Register of Attendance to determine whether it has the following information for each student in the sample: Student's full name, date of birth, full names of parent(s) and/or guardian(s); phone number; and address.

## **B. Attendance Outreach**

**Objective:** To determine whether the ASEP has complied with the attendance outreach terms of the Agreement.

- 1) Review the Register of Attendance to determine whether any student meets the following criteria:
  - a) Five or more consecutive school days/sessions have elapsed since the date of the student's approval to attend without the student establishing enrollment by physical presence or legal excuse.
  - b) Student established enrollment by means of a legal excuse, but has not been physically present within the next twenty (20) school days/sessions.
  - c) Student established enrollment by physical presence, but has been absent without legal excuse for more than five consecutive school days/sessions.
- 2) For any student who met step B.1 above, determine whether the School followed the procedures stated in the Agreement, Section 15 (e) (B) – (H), below. If the total number of students who met criteria B.1. is greater than 10, select only ten students for testing.

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<sup>2</sup> Refer to §175.6 of the Commissioner's Regulations for the definition of a "Legal Absence."

### **Section 15 (e)(B) – (H) of the Agreement.**

- (B)** The Provider shall with due diligence attempt to determine the reason the student has failed to attend or establish enrollment or attempt to ascertain the continued existence and application of a claimed legal excuse. If upon failing to reach the student's parent/legal guardian or upon determining that the student's absence is not based on a legal excuse, the Provider shall complete a Request for Determination Regarding Student Status/Notification Regarding Student Absence without Establishing a Legal Absence ("RDNA") Form.
- (C)** The RDNA form, which shall be signed by the Provider, shall set forth the Provider's efforts to obtain relevant information and any information known by the Provider regarding the student's reason for absence or failure to establish enrollment. The RDNA form so completed shall be submitted to the CPSE.
- (D)** The CPSE shall have fifteen (15) calendar days from the date of the mailing to the CPSE to make a determination regarding the reason for the student's non-attendance and complete and sign the appropriate section of the RDNA form which shall:

  - a) Inform the Provider that the CPSE has determined that there is a basis for a legally excused absence and that the student should remain on the roster unless the student fails to attend within twenty (20) school days from the date of the RDNA signed by the CPSE in which case the Provider must submit a new RDNA. The records or other relevant information upon which the determination of a legally excused absence has been made by the CPSE must be forwarded to the Provider who shall maintain the records; or
  - b) Direct the Provider to send the parent/legal guardian a notice that within 10 (ten) school days, or longer if the CPSE so directs, of the date of the notification to the parent/legal guardian the student's assignment/enrollment will be terminated unless: the student is physically present before the enrollment termination date or the Provider is able to confirm that the student's absence is due to a legal excuse. The notification letter must have appended to it the NYSED Procedural Safeguards Notice to the parent/legal along with the RDNA signed by the Provider and CPSE.
- (E)** If upon the expiration of the fifteen (15) calendar day period referred to in Paragraph 15(e)(1)(D), above, the CPSE has not communicated with the Provider, the Provider shall send the parent/legal guardian a notice that within 10 (ten) school days of

the date of the notification to the parent/legal guardian the student's assignment/enrollment will be terminated unless: the student is physically present before the enrollment termination date or the Provider is able to confirm that the student's absence is due to a legal excuse. The notification letter must have appended to it the NYSED Procedural Safeguards Notice to the parent/legal along with the signed RDNA that had been submitted to the CPSE.

- (F) If, before the termination date stated in the letter of notification to the parent, the student is physically present or establishes a legal excuse, the Provider shall complete the appropriate section of the RDNA form and submit it to the CPSE.
- (G) If the student is not physically present or has not established a legal excuse within the applicable period stated in paragraph 15(e)(1)(D), above, and the Provider has thus terminated the student's assignment/enrollment, the Provider shall complete Section IV of the RDNA and submit it to the CPSE.
- (H) The Provider shall, upon completing Section IV of the RDNA immediately update the CMR to reflect that the student's enrollment status has changed. The Provider shall not be entitled to receive payment for the provision of special education services or programs for any portion of the school year after the date that the student's enrollment is terminated and shall reimburse the Board for any advance payments for any period of the school year occurring after the termination of the student's enrollment.

### C. Personal Services

**Objective:** To determine whether personal service costs are supported with records and whether the general ledger is maintained in such a way as to allow the ASEP to report expenses in the applicable cost categories in the CFR.

- 1) Review ASEP's latest Financial Statements and CFR and note reported less-than-arms-length relationships. In addition, interview the Executive Director and at least one other high-level manager to determine whether they are aware of any person related by blood or marriage to any ASEP administrator or any separate business entity owned in whole or in part by any ASEP administrator who is employed by or does consulting work for or provides services to the ASEP. If a related party is identified, as appropriate based on the nature of the services provided:
- 2) Referencing the organization chart, interview the Executive Director or designee to identify employees who have a supervisory title or spend

25% or more of their time in an educational supervision role or are responsible for teacher training and observation. Ask to see their School Administration and Supervision certification. Discrepancies will be reported to the 4410 Program office.

- 3) Trace all individuals appearing on the payroll register to the organization chart. If any individual appears on the payroll register, but is not on the organization chart, ask the ASEP's administrator for an explanation. Conversely, if any individual appears on the organization chart, but does not appear on payroll register, ask the ASEP's administrator for an explanation. Discrepancies will be reported to the 4410 Program office.
- 4) Select one payroll period and draw a sample of employees that includes any individuals identified in steps C1 – 3, above. The sample size should not be fewer than 20 employees. For the selected sample perform the following:
  - a) Review job description.
  - b) Review supporting records:
    - i. Time records.
    - ii. Proof of payment.
    - iii. Work product or other evidence that service was provided, as appropriate.
  - c) Confirm whether the individual is at the site and performing the duties identified by the ASEP.

#### **D. Allocation Methodology**

**Objective:** To verify the reasonableness of the methodology used to allocate costs among programs that benefited from the expenditures and determine whether the costs are supported and accurately assigned.

Ask the ASEP to identify by category which costs, if any, were allocated and to provide the written cost allocation methodology. Even if the latter is not produced - a condition that should be noted - as tests of the specific cost categories are conducted, 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 of facility costs, a reasonable basis would be the use of 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.

## **Other than Personal Service (OTPS)**

### **E. Contracted Service**

**Objective:** To determine if payments made to independent contractors are directly related to the preschool program and supported by adequate documentation.

**Note:** Consultants are not entitled to fringe benefits or bonuses. Further, SEIT service must be provided by ASEP employees only.

For each approved program, using transactions posted to the general ledger, sample up to 10 direct service consultant transactions and up to 5 consultant transactions for legal, accounting and/or computer services.

- 1) Review service agreement, invoices, proof of payment and work product or other evidence that service was provided.
- 2) Determine whether charges are supported with appropriate records and consistent with the basis for compensation noted in the employment agreement/contract.

### **F. OTPS (excluding contracted services)**

**Objective:** To determine whether OTPS transactions posted to the general ledger are directly related to the preschool program and supported with adequate documentation.

- 1) Review general ledger OTPS accounts, excluding contracted services, and select 20 or more OTPS transaction for testing. In determining which transactions to select, take into consideration discrepancies such as rent payments that fluctuate from month to month, entries in credit card accounts, and payment of interest for related party loans. If applicable, include large dollar expenditures for furniture, computer or other equipment, and office supplies.
  - a) For each transaction, request invoice and proof of payment and any other applicable record required by the RCM.
  - b) If the item purchased is equipment/furniture, review whether inventory records reflect the item and location and observe the location and use of the purchased item.

## **G. Loans**

**Objective:** To determine whether the ASEP is the recipient of related party loans or has made loans to any third party.

**Note:** Review the RCM sections on loans.

In any instance that it is confirmed that loans were received or extended:

- 1) Review ASEP's latest financial statements, general ledger and ICQ to determine whether the ASEP has engaged in less-than-arms-length loan transactions.
- 2) If the ASEP was the recipient of a loan, request an explanation of the necessity for and use of the loan proceeds. Request records, including the loan agreement(s) and schedule(s) of loan repayment. If it is not otherwise apparent, ask whether the lender is a related party. Determine whether interest expense has been posted to the general ledger.
- 3) ASEPs are not permitted to lend public funds. If the ASEP extended a loan, determine whether 4410 funds were used for that purpose. If so, request the written loan agreement, schedule of re-payment, and, if interest was paid, an explanation of how it was reported.

## **H. Individuals with Disabilities Education Act ("IDEA")**

**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.

- 1) Select at least five percent of the reported students, but not fewer than 10 students for each section in the form, and ascertain whether the ASEP included only students enrolled as of the BEDS date.
- 2) Match costs reported in the Budget (ASEP 10) with the Final Expenditure Report (ASEP 10-F) and record any discrepancies. Obtain an explanation for discrepancies, if any. Select for testing expenses that are identified in the Expenditure Report, but not in the Budget. If there are numerous discrepancies, discuss with the Audit Director how many items should be selected for testing.

- 3) Trace total costs reported in the ASEP 10-F to the general ledger account for IDEA expenditures. If the general ledger does not lend itself to be compared to the ASEP 10-F, request the lead schedules that were used to prepare that report.

**Personal services:**

- 4) Select a sample of staff whose salaries were reported in the Final Expenditure Report.
- 5) Request the payroll registers for one pay period to determine whether the selected employees appear on the registers. Select their time records and proof of payment (front and back of cancelled checks).
- 6) 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 were properly allocated.

**OTPS:**

- 7) Using the general ledger, select a sample of consultants and request and review detailed invoices, proof of payment, 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.
- 8) Select a sample of five transactions from different OTPS categories other than consultants, and request and review detailed invoices, proof of payment, contracts and bids (if applicable) to determine whether the transactions are supported, consistent with budget approval and fairly allocated, if applicable. In the case of equipment and furniture, review whether inventory records reflect the item and location.