



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

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RE: Fiscal Audit Guidelines and Requirements

Dear Chief Elected Officials of the Counties:

This is in reference to E



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

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 tu62016.94 680 /Spa

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.



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

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



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 - 1d6e revenu41 Tc T(VII Tw 17.803 Tw [.83nses as Ae-ntCrra A0006 Tw T{au**