



# Special Education Audit Update

**Darien Board of Finance**

November 19, 2014

Town Hall – 7:00 pm

# Introductions

## Jon Zagrodzky

- Board of Finance member since 2008
- Chair of the Audit Committee

## Joseph Centofanti, CPA, CFE, FCPA, CFF, CGFM

- Audit Partner with CohnReznick
- 25 years of experience in providing audit and consulting services to municipal entities
  - Certified Fraud Examiner
  - Forensic CPA
  - Certified in Financial Forensics
  - Certified Government Financial Manager

# Tonight's Objectives

## Special Education Audit Update



- Background and scope
- Special Education overview
  - Costs
  - Processes
- Allegations addressed
- Audit approach, findings and recommendations
- Concluding thoughts
- Q&A

- This is not the auditor's report, which will include in more detail the procedures performed, results, assumptions and formal recommendations
- Audit team will incorporate feedback from this session
- The fault for any mistakes or omissions is JZ's alone

# Background

## **SPECIAL EDUCATION REPORT**

**Procedures & Practices  
Relevant to the Administration &  
Operation of Instruction, Services,  
& Support for  
Students with Disabilities  
in the  
Darien Public Schools  
For the 2012-13 School Year**

**Sue Gamm, Esq.  
Independent Investigator  
for the Darien Board of Education**

**December 16, 2013**

Attorney Sue Gamm's report highlighted potential problems

- Submissions based on projections not updated throughout the year
- Multiple discrepancies between projections and services delivered
- Inadequate documentation, which is required to support submissions to the State

Concerns reported to BOE and Town Auditors

BOF commissioned an audit

# Auditor Selection Process

- Four firms asked to bid: Eisner Amper (declined to bid), Blum Shapiro, McGladrey and CohnReznick
- To ensure full independence, McGladrey, the current Town auditor, was rejected
- Given their expertise and their ability to start more quickly, CohnReznick was selected

COHN  REZNICK

ACCOUNTING • TAX • ADVISORY

- The decision to hire CohnReznick was finalized at the November 19, 2013 BOF meeting

# Areas Addressed by the Audit

## THIS

- Documentation of services delivered was not accurate or complete
- Services not delivered as claimed or allocated incorrectly
- Costs of services delivered and reported were not calculated properly



**Focus of the audit** – including all costs reported to the State for reimbursement

## NOT THIS

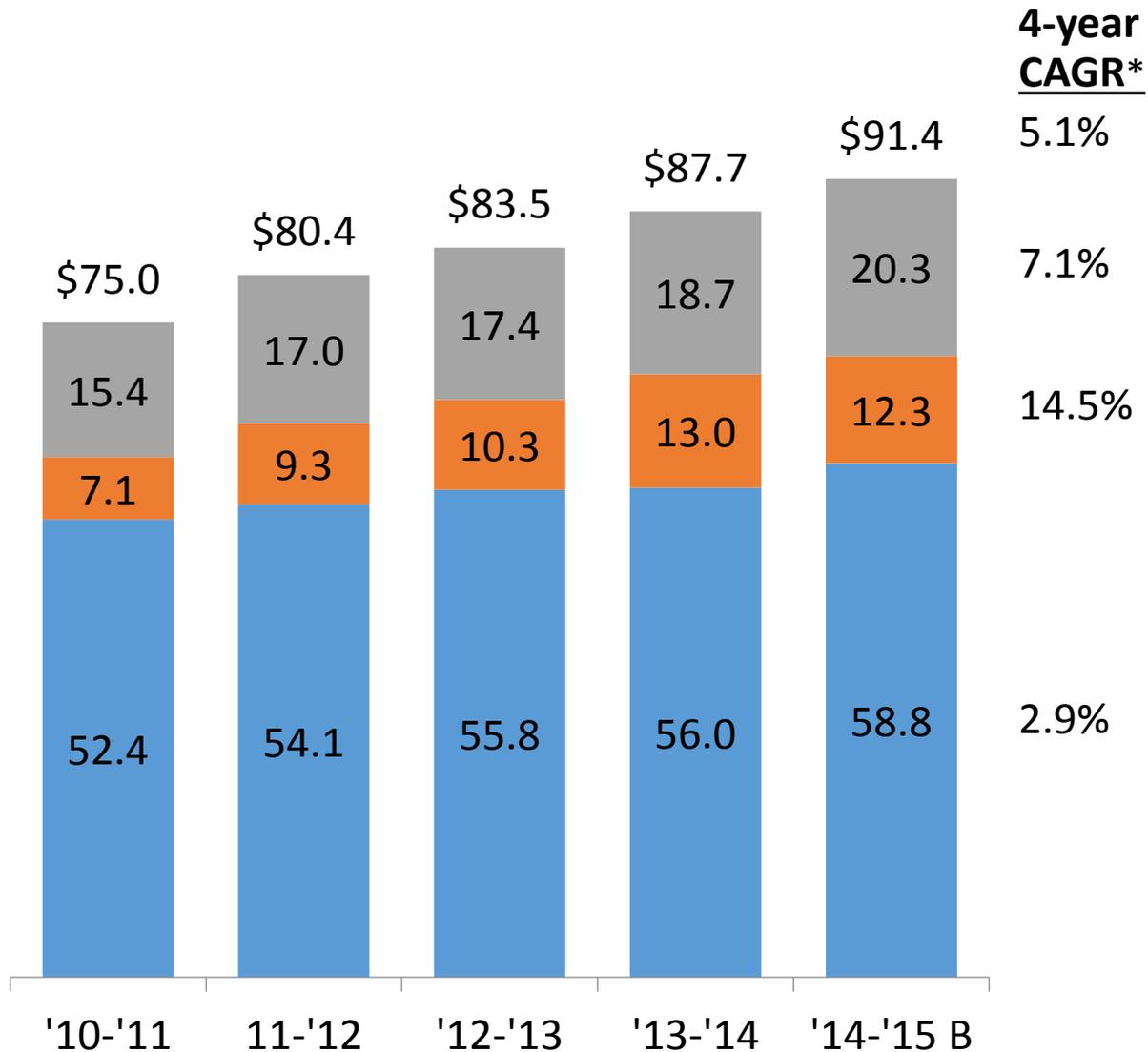
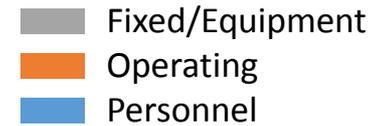
- IEPs were improperly or illegally modified
- Promised services were not delivered
- Services were delivered, but in a manner not consistent with the IEP



**Focus of the District** – every allegation is being investigated or has been resolved

# Gross Education Expenditures

\$ millions, excluding capital and revenue/reimbursements



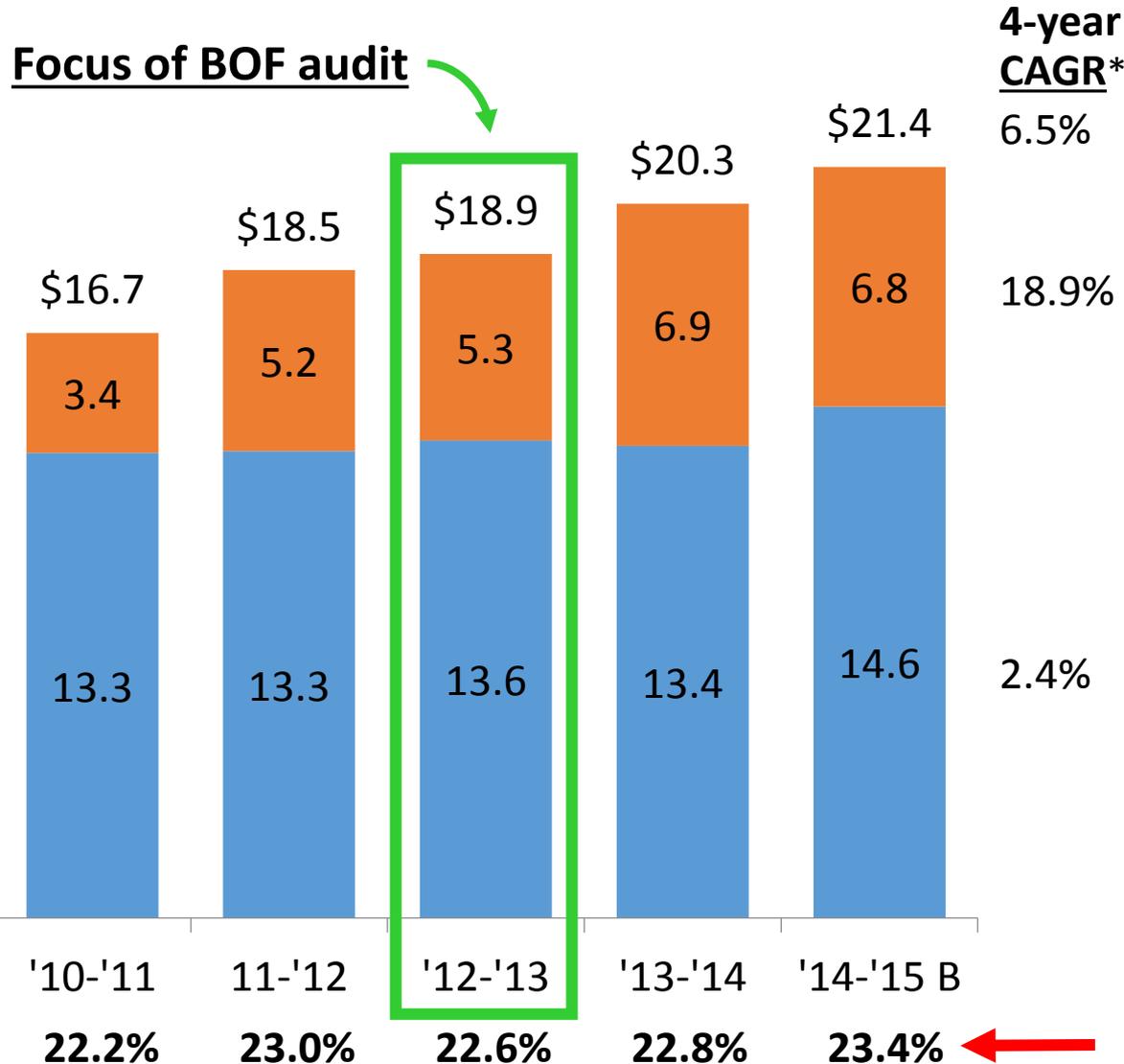
- Total four-year CAGR is 4.5% on a per capita basis
- Personnel growth spread relatively evenly among schools and administration; SPED accounts for 10% of the four-year increase
- SPED accounts for 66% of Operating cost growth

\* Compound Annual Growth Rate

# Special Education Expenditures

\$ millions, gross, excluding revenue/reimbursements

Operating  
Personnel



Most of the personnel growth:

- Special Education teachers
- Student Educator & Support Specialists (SESS)

92% of Operating expenditure growth since 2010: out-of-district tuition

**SPED as % of gross education expenditures**

\* Compound Annual Growth Rate

# How are Submitted Expenditures Determined?

Methodology for the 2012-13 school year

## Budgets

- District forecasts the number of students with IEP services likely above the \$72,834 reimbursement threshold – **96 in 2012-13**
- District develops budgets for each student, which entails identifying the resources needed (teachers, aides, therapy, transportation, etc.)

## Estimated costs

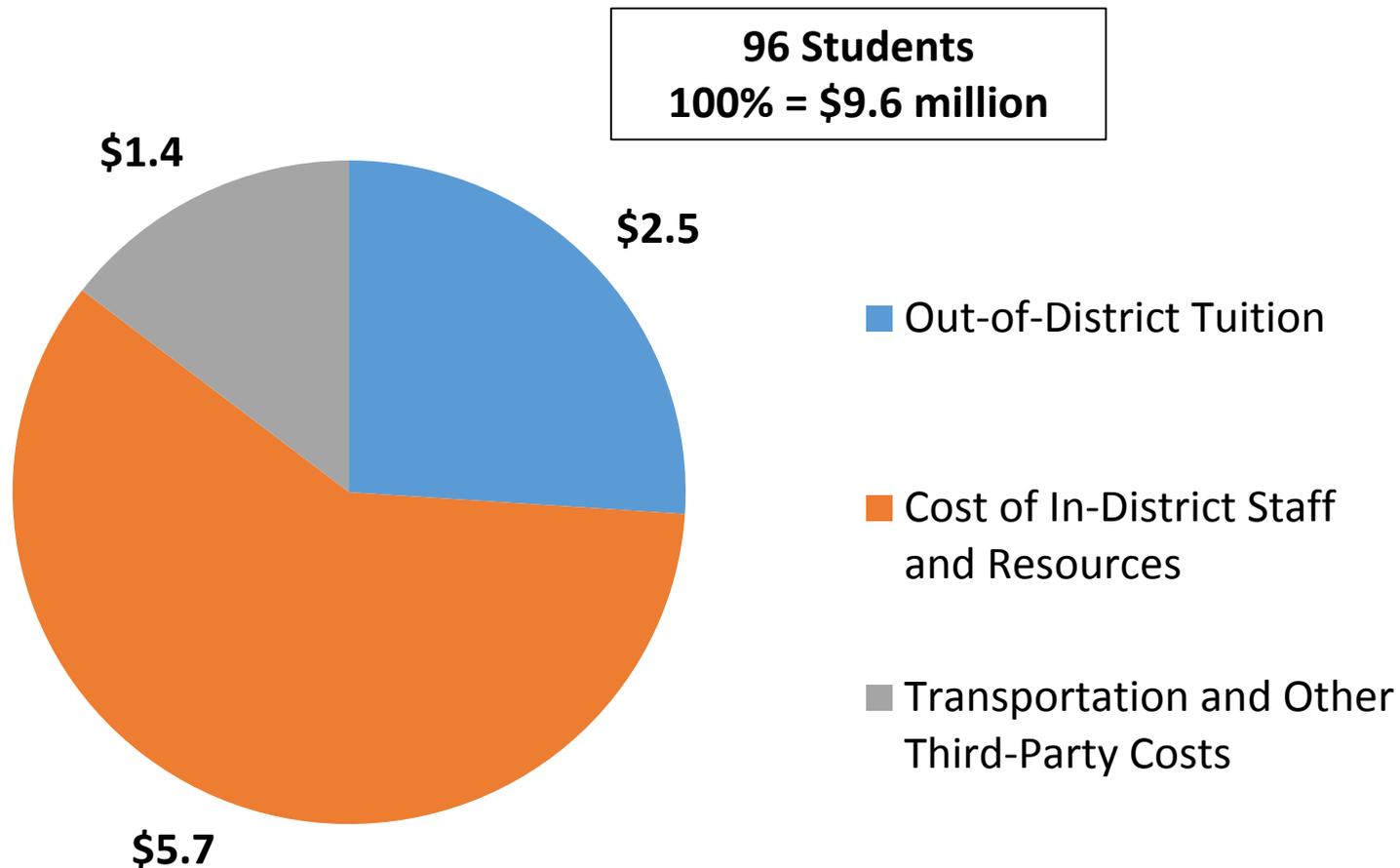
- District reports total budgeted cost for each student through the Special Education Data Application and Collection (SEDAC) system by December 1
- On April 1, the District updates full-year budgeted costs based on projections through June 30

## Actual costs

- A last update, with actual costs through June 30, is required by September 1
- Depending on what the Town Auditors recommend, there might be a final adjustment as late as December

# Excess Cost Budget Break-Down

\$ millions; 2012-13 school year

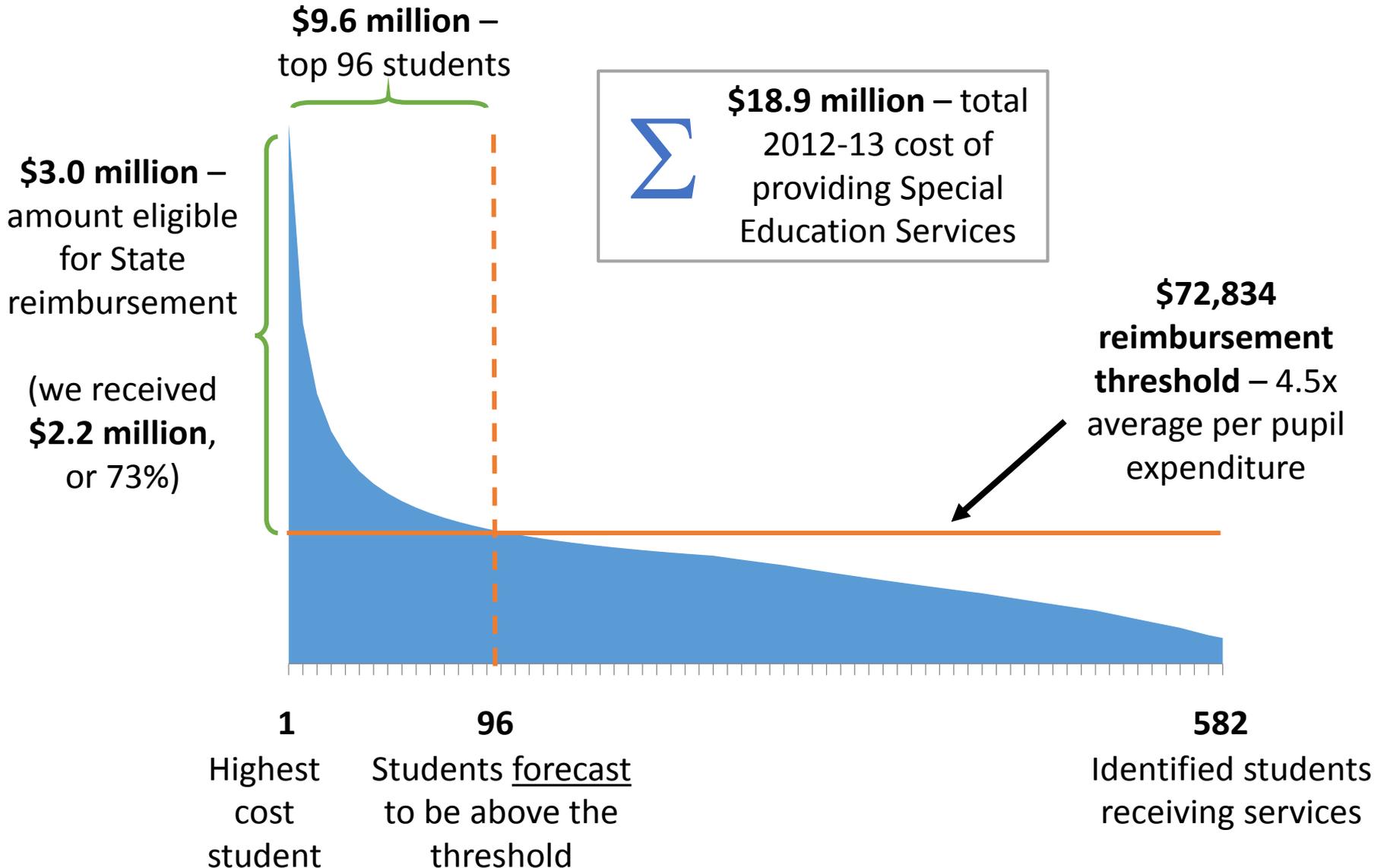


**“The most challenging costs to report are for staff within the District. One formula may not work for all students.”** *SEDAC-G User Guide*

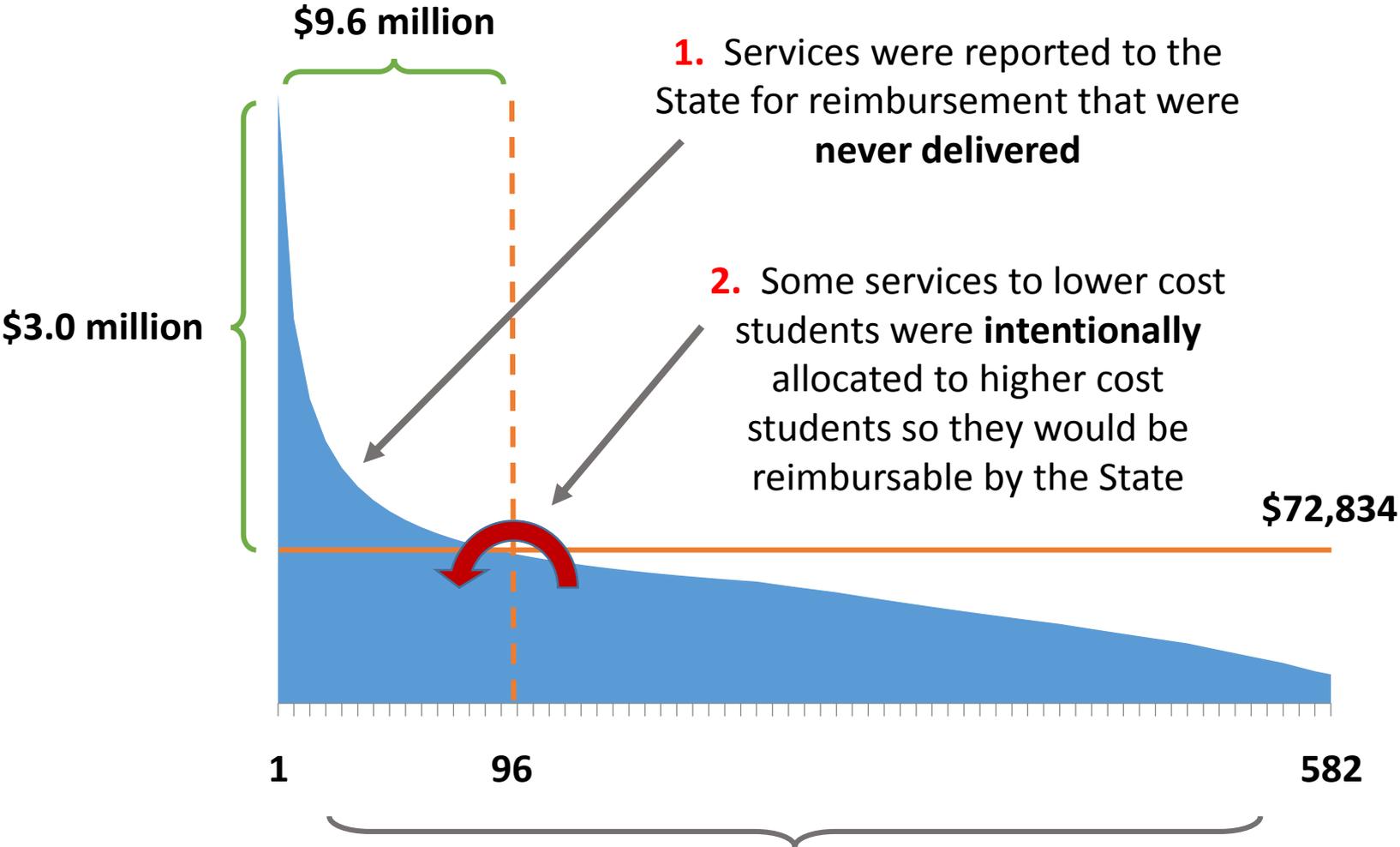
# Expenditures by Student

CONCEPTUAL

2012-13 School Year



# Allegations



1. Services were reported to the State for reimbursement that were **never delivered**

2. Some services to lower cost students were **intentionally** allocated to higher cost students so they would be reimbursable by the State

3. The District **deliberately manipulated** reported costs to defraud the State

# Audit Objectives

- Review procedures for accounting and reporting for both in-district and out-of-district special education students including the supporting documentation and allocations
- Review, recalculate and/or agree to appropriate supporting documentation of costs reported on the June 30, 2013 SEDAC report
- Provide recommendations for
  - The accounting, type and/or format of the supporting documentation
  - Documentation of cost allocations and related methodology

# Audit Procedures

## Audit testing and review

- Analysis of supporting documentation for all costs reported, including tuition and transportation costs – review included invoices, payroll charges and any other costs charged to each student
- Recalculation of allocations
- Students records reviewed/tested:
  - 4 students placed out-of-district
  - 50 students in-district with costs over \$72,834

## Staff interviews

- Interviews with staff members involved in student recordkeeping and SEDAC report preparation/submission
  - District leadership, including the District’s Director of Finance
  - Special Education Director and key team members
  - Administrative staff

## Parent meetings

- In a letter dated May 2, 2014, parents of all 96 excess cost reported students were invited by Dr. Lynne Pierson to speak with the auditor as part of the process; **16 accepted**

**Full confidentiality:** all student-specific records and all parent conversations were kept strictly confidential and were not shared outside the audit process or with Town or BOE officials

# Audit Testing and Review

**Central question:** Were costs reported to the State supported by adequate documentation?

## In-District costs

### **“Quantity”**

- Reviewed available service records
- Verified, where possible:
  - Service delivery and duration
  - Personnel providing services
  - Service allocation by student

### **“Price”**

- Reviewed salary and benefit records
- Recalculated hourly costs for each teacher and aide

**X**

**=**

**“Total Cost”** – recalculated costs of in-district services submitted

## Third Party costs

### **Vendors** (e.g., transportation)

- Summarized invoices and verified amounts paid to the SEDAC amount reported
- Recalculated cost allocation to each student

### **Out-placed students**

- Reviewed cost records for a sample of students
- Verified costs submitted with invoices received

# Staff Interviews



Interviewed all staff associated with SEDAC reporting

## District leadership

- Dr. Lynne Pierson, Interim Superintendent
- Mr. Michael Feeney, Darien Schools Director of Finance
- Mr. John Veere, Special Education Ombudsman

## Special Education personnel

- Ms. Carleen Wood (former Assistant Director)
- Dr. Barbara (Candy) Lombardo (interim Director)
- Debbie Farber (interim Assistant Director)

**Administrative staff** – as necessary, both in the Special Education Department and the District Finance Department

## Inquiries focused on:

- Recordkeeping processes
- Documentation available
- Procedures for completing the SEDAC report
- Methodology used (allocations)
- Understanding instances of discrepancy
- Areas for improvement

**All personnel were helpful, open and fully cooperative**

# Parent Meetings

**16 parent meetings or calls** conducted over the course of two months



- Reviewed individual SEDAC cost worksheets with the parents
- Discussed services reported on the cost sheets and specified in individual IEPs
- Compared services reported on the SEDAC cost sheet with parent records and recollections of services delivered and service providers

- Parent discussions varied – some had issues to raise, others just wanted more information
- Several expressed concerns about the confidentiality of their involvement – “What if others find out I spoke with you?”
- **No names of parents interviewed were released publicly or to Board of Education members or Town officials**
- **All conversations were kept confidential**

# Findings – Summary

## Initial allegations

1. Services were submitted for reimbursement by the State that were **never delivered**

**Yes.** Student costs were reported based on the maximum “up to X” hours of service in the IEP, not what was actually delivered (much of these discrepancies were surfaced in parent interviews)

2. Some services to lower cost students were **intentionally** allocated to higher cost students so they would be reimbursable by the State

**No.** There were instances where services were reported on the wrong student’s cost sheet, but in all instances it was due to misposting resulting from how student names were coded (AB, AB1, AB2)

3. The District **deliberately manipulated** reported costs to defraud the State

**No.** There did not appear to be deliberate, wide-spread manipulation – only clerical errors and poor recordkeeping

# Findings – Summary *(continued)*

## Procedure deficiencies

- Inadequate documentation for the actual time spent providing services to students during normal school hours
- No formal system in place to document and communicate changes in services and personnel to the Special Education and District Finance Departments
- No procedures in place to verify cost sheets for clerical accuracy

## Methodology deficiencies

- Regular Education Teachers were charged incorrectly to students (controversial)
- Certain cost allocations were not properly calculated or were over-allocated (more than 100% of actual costs)
- Estimated total cost for each student was not properly updated with actual costs

# Findings – Financial Implications

\$ thousands; 2012-13 school year

Amount reported to the State	\$9,566
<b><u>Adjustments</u></b>	
• Regular Education Teachers	(\$185)
• Salaries & benefits (net)	(\$153)
• Other services (mostly overtime)	\$33
• Transportation	\$24
• Adjustments based on Parent meetings	(\$21)
• Tuition, purchases, other	\$13
• <b>Total adjustments</b>	<b><u>(\$289)</u></b>
Adjusted total	<u>\$9,277</u>
<b>Estimated amount District was overpaid by the State?</b>	<b>\$211</b>
<i>(adjustments x the 73% reimbursement rate)</i>	

The amount owed, when finalized, will be subtracted by the State from the next Education Cost Sharing Grant the Town receives

# What About Fraud?

**Fraud**: A deception deliberately (**intent**) practiced in order to secure unfair or unlawful gain

Generally, most fraud is committed using a specific scheme or pattern. CohnReznick has noted many different pattern types over many years of conducting fraud investigations.

CohnReznick did not identify any pattern to the errors noted. In many cases (26 of the 96 budgeted Excess Cost students), their recommended adjustments increased the total cost reported to the State.

For the items that CohnReznick directly tested and subsequently recommended for adjustment, **none of these adjustments were recommended based upon any evidence of fraud.**

# Recommendations – Summary

## Documentation

- Create standard forms with consistent formats for:
  - Capturing time spent on services (i.e., time spent with each student by day), with direct service delivery and administrative services recorded separately
  - Documenting personnel and service delivery schedule changes
- Create standard spreadsheets to:
  - Record service delivery (from the forms) and hourly cost data
  - Automate calculations of total cost to minimize clerical errors
  - Capturing transportation costs and reconciling them to the general ledger

## Methodologies

- Discontinue charging the time of regular education teachers unless they are providing a direct service to excess cost students
- Discontinue identifying students by initials (error-prone); replace with a number system that also distinguishes between excess cost and non-excess cost students

# Recommendations – Summary *(continued)*

## Procedures

- Adopt a formal caseload management system for all service providers (e.g., aides and para-professionals), not just teachers
  - Clear responsibilities for assigned students
  - Monitoring of total allocated time by employee (%)
- Develop and implement standards and procedures for:
  - Consistently determining costs of in-District personnel providing special education
  - Ensuring that forms documenting information and status changes (e.g., teacher resignations) are properly communicated within the District
  - Checking and verifying all forms and cost spreadsheets, which should include reviews by both the Special Education and District Finance Departments
  - Reconciling amount reported to actual costs to prevent over allocations

## IEP language

- Eliminate the use of “up to X hours” and replace with a range or specific number
- Match prescribed service delivery time to class schedule time frames (e.g., 48 minutes)

# Recommendations – District Actions to Date

## Documentation

- The District has adopted the **EasyTrac™ Program** to track service delivery, provide data management and analysis capability and support Excess Cost Reporting
  - On-line (eliminates paperwork and time sheets) with password controls
  - Training over the last five months; go-live is December 1 (February 1 for DHS)

## Methodologies

- Reporting/claiming of service by general education teachers discontinued for 2013-14
- Transitioning to use of SASIDs to identify students (linked to EasyTrac™)

## Procedures

- Staff required to report actual hours
- IEPs printed mid-year to ensure that changes made are captured on caseload forms
- EasyTrac™ data entry will be reviewed and approved by Principals and SESS admins

## IEP language

- No more “up to”, “as needed” or “not to exceed” language (procedures for specifying services are in the new Procedures Manual issued by the District in September 2014)

**District and Joe Centofanti have been in regular communication**

# Audit Costs

We estimated \$30,000 – \$45,000 for this audit

The complexities encountered, and the extra time required to conduct and process staff and parent interviews, increased costs

Current all-in audit costs are expected to be between **\$100,000 and \$120,000**

# Closure

**Serious problems** brought us to where we are today: Attorney Sue Gamm's report, increasing costs, turmoil in special education management/personnel

But the BOF **in some ways may have added to the problems:**

- Our concerns about special education costs and management, while legitimate, were perceived as an attack on parents and students
- Our meetings with District officials, while well-intentioned (and in one important instance, unplanned), were perceived as unduly attempting to influence District decision-making

Going forward, the BOF will strive to communicate its concerns and commentary constructively, and to avoid interactions that may be perceived as outside our purview, but we have no plans to abdicate our role as financial watchdogs and representatives of Darien taxpayers

**As for the audit:**

- Worthwhile, but repeating the audit for other years is not advised
- Recommendations will help, but the District needs to own implementation

**What's next:**

- Diligence by District and SPED leadership
- Accountability for future Excess Cost reporting
- Continued follow-up on individual IEP issues – the District wants to help

# A Final Word



## A word of thanks:

- District leadership – very helpful and cooperative throughout the process.
- District personnel – forthcoming with data, perspectives and explanations
- Attorney Sue Gamm – report identified serious potential problems and helped focus the audit

**Special thanks to the parents** – you have been valuable advocates for improving the processes surrounding Special Education

# Q&A

