New York State Comptroller
THOMAS P. DiNAPOLI

Life Skills Home Training Tutorial Program for Preschoolers, Inc.: Compliance With the Reimbursable Cost Manual

State Education Department

Report 2020-S-37 | **December 2021**

Spotlight on Education

Audit Highlights

Objective

To determine whether the costs reported by Life Skills Home Training Tutorial Program for Preschoolers, Inc. (Life Skills) on its Consolidated Fiscal Reports (CFRs) were reasonable, necessary, directly related to the special education programs, and sufficiently documented pursuant to the State Education Department's (SED) Reimbursable Cost Manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). The audit focused primarily on expenses claimed on Life Skills' CFR for the fiscal year ended June 30, 2018 and certain expenses claimed on its CFRs for the 2 fiscal years ended June 30, 2017.

About the Program

Life Skills is a New York City-based not-for-profit organization authorized by SED to provide full-day Special Class, half-day Special Class, and Integrated Preschool Special Education services to children with disabilities who are between the ages of 3 and 5 years. For the purposes of this report, these programs are collectively referred to as the SED preschool cost-based programs. Life Skills also operated two other SED-approved preschool special education programs (Evaluations and 1:1 Aides). However, payments for services under these programs are based on fixed fees.

During the 2017-18 school year, Life Skills served approximately 279 students. The New York City Department of Education refers students to Life Skills and pays for its services using rates established by SED. The rates are based on the financial information Life Skills reports to SED on its annual CFRs. For the 3 fiscal years ended June 30, 2018, Life Skills reported approximately $19 million in reimbursable costs for the SED preschool cost-based programs.

Key Findings

For the 3 fiscal years ended June 30, 2018, we identified $278,815 in reported costs that did not comply with the requirements in the RCM and the CFR Manual, including:

- $117,807 in expenses that were reported in the incorrect reporting period, including $111,213 in accounting expenses, $5,996 in information technology expenses, and $598 in other miscellaneous expenses.
- $77,832 in compensation expenses that exceeded the average regional levels.
- $34,319 in insufficiently documented and unsupported expenses, including $33,108 in accounting services that were not adequately documented and $1,211 in other unsupported expenses.
- $20,682 in employee benefit and pension expenses that did not meet reimbursement requirements.
- $10,281 in unallowable expenses, including $4,990 in ineligible security deposit expenses, $2,387 in personal cell phone expenses, $1,922 in late fees associated with utilities and payroll expenses, $672 in ineligible graduation gifts to students, and $310 in food provided to staff/parents.
- $9,332 in excessive compensation expenses. Three employees received more compensation than what was approved by Life Skills' Board of Directors.

- $8,562 in overallocated utility expenses.

Key Recommendations

To SED:

- Review the recommended disallowances identified by our audit and make the necessary adjustments to the costs reported on Life Skills' CFR and to Life Skills' tuition reimbursement rates, as warranted.
- Remind Life Skills officials of the pertinent SED requirements that relate to the deficiencies we identified.

To Life Skills:

- Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.

Office of the New York State Comptroller
Division of State Government Accountability

December 17, 2021

Betty A. Rosa, Ed.D.
Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Barbara Hendricks
Executive Director
Life Skills Home Training Tutorial Program for Preschoolers, Inc.
2420 Parsons Boulevard
Flushing, NY 11357

Dear Dr. Rosa and Ms. Hendricks:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for the tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report, entitled *Compliance With the Reimbursable Cost Manual*, of our audit of the costs submitted by the Life Skills Home Training Tutorial Program for Preschoolers, Inc. to the State Education Department for the purpose of establishing the preschool special education tuition reimbursement rates used to bill public funding sources that are supported by State aid payments. This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 4410-c of the State Education Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Division of State Government Accountability

Contents

Glossary of Terms

Term	Description	Identifier
CFR	Consolidated Fiscal Report	*Key Term*
CFR Manual	Consolidated Fiscal Reporting and Claiming Manual	*Policy*
DOE	New York City Department of Education	*Agency*
Life Skills	Life Skills Home Training Tutorial Program for Preschoolers, Inc.	*Service Provider*
OTPS	Other than personal service	*Key Term*
RCM	Reimbursable Cost Manual	*Policy*
SED	State Education Department	*Auditee*

Background

Life Skills Home Training Tutorial Program for Preschoolers, Inc. (Life Skills) is a New York City-based not-for-profit organization approved by the State Education Department (SED) to provide full-day Special Class, half-day Special Class, and Integrated Preschool Special Education services to children with disabilities who are between the ages of 3 and 5 years. For the purpose of this report, these programs are collectively referred to as the SED preschool cost-based programs. In addition to the SED preschool cost-based programs, Life Skills also operated two other SED-approved preschool special education programs (Evaluations and 1:1 Aides). However, payments for services under these programs are based on fixed fees.

During the fiscal year ended June 30, 2018, Life Skills served approximately 279 students with disabilities. The New York City Department of Education (DOE) refers students to Life Skills based on clinical evaluations and pays for Life Skills' services using rates established by SED. The rates are based on the financial information that Life Skills reports to SED on its annual Consolidated Fiscal Reports (CFRs). To qualify for reimbursement, Life Skills' expenses must comply with the criteria in SED's Reimbursable Cost Manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual), which provide guidance to special education providers on the eligibility of reimbursable costs, the documentation necessary to support these costs, and cost allocation requirements for expenses related to multiple programs and entities. SED reimburses DOE 59.5% of the statutory rate, which DOE pays Life Skills.

For the 3 fiscal years ended June 30, 2018, Life Skills reported approximately $19 million in reimbursable costs for the SED preschool cost-based programs. This audit focused primarily on expenses that Life Skills claimed on its CFR for fiscal year ended June 30, 2018, but also included certain expenses that Life Skills claimed on its CFRs for the 2 fiscal years ended June 30, 2017.

Audit Findings and Recommendations

According to the RCM, costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the special education program, and sufficiently documented. For the 3 fiscal years ended June 30, 2018, we identified $278,815 in reported costs that did not comply with SED's requirements for reimbursement. These ineligible costs include $107,846 in personal service costs and $170,969 in other than personal service (OTPS) costs (see Exhibit).

Strong internal controls are critical to the overall health of an organization. These controls help to safeguard assets and ensure reliable financial reporting and compliance with regulatory requirements. We attributed the disallowances detailed in this report to weaknesses in Life Skills' internal controls over its compliance with SED's guidelines.

Personal Service Costs

Personal service costs, which include all salaries and fringe benefits paid or accrued to employees on the service provider's payroll, must be reported on the CFR as either direct care costs (e.g., teachers' salaries) or non-direct care costs (e.g., administrators' salaries). For the 3 fiscal years ended June 30, 2018, Life Skills reported approximately $16.1 million in personal service costs for the SED preschool cost-based programs. We identified $107,846 in personal service costs that did not comply with the RCM's requirements for reimbursement.

Compensation Exceeding Average Regional Levels

According to the RCM, compensation to all individuals who have a financial interest in the program, including shareholders, trustees, board members, officers, family members, or others, and who are also program employees must be commensurate to actual services provided as appropriately qualified program employees or consultants. Compensation shall not exceed the average regional levels paid by similar private providers to comparably qualified and appropriately certified personnel for similar work and hours of employment. Any compensation determined to be excessive will not be reimbursed in the tuition rate. We identified $77,832 that did not comply with SED's reimbursement requirements.

For the 3 fiscal years ending June 30, 2018, Life Skills reported $215,579 in compensation for a family member who worked in the Position Title Code (PTC) 605 - Bookkeeper/Office Worker. The family member was related to both the Executive Director and the Assistant Executive Director. The total average regional compensation reimbursement limit for a PTC 605 with comparable employment hours was $136,807. As a result, the total compensation exceeded the average regional limit by $78,772. Of the $78,772 in excess compensation, Life Skills allocated $77,832 to the SED preschool cost-based programs.

Life Skills officials disagreed with our finding, stating that PTC 605 did not appropriately reflect the employee's responsibilities and functions. They advised us that this individual performed duties beyond those of a bookkeeper. However, we reviewed the employee’s time studies and determined that the duties performed were consistent with those of a bookkeeper.

Consequently, we recommend that SED disallow $77,832, the portion of the excess average regional compensation that was allocated to SED’s preschool cost-based programs.

Overclaimed Benefit Reimbursement and Pension Expenses

The RCM states that costs will be considered for reimbursement if they are reasonable, necessary, directly related to the education program, and sufficiently documented. Fringe benefits may include paid time off (e.g., vacation leave, sick leave, military leave, holidays), training, and educational costs, provided the benefit is established by written school policy. Payments into specific employee benefit packages, such as teachers’ retirement, employees’ retirement, and pension plans, may also be included.

As discussed next, we found a total of $20,682 ($10,760 + $9,922) in reported benefit expenses that were not in compliance with the RCM’s requirements as well as Life Skills’ benefit reimbursement policy and profit-sharing pension plan requirements, and recommend SED disallow this amount.

Benefit Reimbursement

According to Life Skills’ benefit reimbursement policy, Life Skills provides its eligible employees up to 100% reimbursement of medical, dental, and other supplemental insurance such as short-term disability insurance, wellness plan, and life insurance if the annual budget permits. All eligible employees are reimbursed after the close of the school year. The benefit reimbursements are available to all Life Skills employees working 19 or more hours per week (988 hours per school year) for short-term disability insurance and 20 or more hours per week (1,040 hours per school year) for the life insurance and wellness plan. We identified $10,760 in overclaimed employee benefit reimbursements (including associated payroll taxes) and recommend disallowance of this amount, as follows:

- In fiscal year 2016-17, Life Skills reimbursed $9,917 to four employees who did not meet the working hours requirement (1,040 working hours per year) for the life insurance and wellness plan. Further, two of these employees did not meet the working hours requirement (988 working hours per year) for short-term disability insurance; and
- In fiscal year 2017-18, Life Skills reimbursed $843 to an employee who did not meet the working hours requirement (988 working hours per year) for short-term disability insurance.

Pension Expenses

During our audit period, Life Skills had a profit-sharing pension plan for its employees. To be eligible, an employee must complete 1 year of service and be at least 19 years old. We found $9,922 in ineligible pension contributions, including $2,021 in excessive contributions and $7,901 in ineligible contributions for employees who did not meet the 1 year of service requirement, and recommend disallowance of this amount.

Excessive Compensation

The RCM states salaries include all taxable and non-taxable salaries and wages paid or accrued to employees on the agency payroll, including severance pay to regular employees, payment for services (fee for service), and per diem pay. Entities operating approved programs shall develop employer–employee agreements with written salary, wage, or payment for services scales and issue them to employees. According to the December 21, 2017 Board meeting minutes, Life Skills' Board approved a 4% salary increase effective January 1, 2018. We found three employees who received more than the 4% increase, totaling $9,332, as follows:

- $5,224 for the Assistant Executive Director, who received an increase of 10%. Life Skills officials disagreed, stating that this was a delayed salary adjustment. However, we could not find any reference to a salary adjustment in the Board meeting minutes.
- $3,312 for one employee who received an increase of 15.56%. Life Skills officials stated this was due to an increase in the number of hours worked (from 35 to 40 hours) per week. However, our review of the payroll register did not indicate any changes in the employee's number of working hours.
- $796 for one employee who received an increase of 10%. Life Skills officials could not provide us with any supporting documentation to substantiate this increase.

We recommend that SED disallow the $9,332 in compensation that was not in compliance with the RCM's requirements.

Other Than Personal Service Costs

According to the RCM, costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. For the 3 fiscal years ended June 30, 2018, Life Skills reported approximately $2.9 million in OTPS expenses for its SED preschool cost-based programs. To determine whether these expenses complied with SED's requirements for reimbursement, we judgmentally selected a sample totaling approximately $527,722 in OTPS expenses. We identified $170,969 of these expenses that did not comply with SED's reimbursement requirements.

Incorrect Reporting Period Costs

According to the CFR Manual, only expenses and revenues for the proper CFR reporting period should be included on the CFR. CFRs submitted with expenses and revenues for a different reporting period will not be accepted. For the 3 fiscal years ending June 30, 2018, we identified $117,807 in costs that were charged to the incorrect CFR reporting period, as follows:

- $111,213 in accounting fees related to CFR preparation;
- $5,996 in information technology contracted services; and
- $598 in miscellaneous expenses, including $497 in annual filing fees and $101 in school supplies.

We recommend that SED disallow $117,807 in expenses that were not reported in the correct CFR reporting period.

Unsubstantiated Expenses

The RCM states costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the special education program, and sufficiently documented. Adequate documentation for consultants includes, but is not limited to, the consultant's résumé, a written contract that includes the nature of the services to be provided, the charge per day, and the service dates. All payments must be supported by itemized invoices that indicate the specific services actually provided and, for each service, the date(s), number of hours provided, fee per hour, and total amount charged. We identified $34,319 in expenses that did not meet the requirements of the RCM, as follows:

- $33,108 in insufficiently documented accounting services. The invoices did not include the specific services provided and/or dates that services were rendered.
- $1,211 in unsupported expenses, including $674 in copier services and $537 in food expenses. Life Skills officials could not provide documentation to support these expenses.

We recommend that SED disallow $34,319 in expenses that were not in compliance with the RCM.

Unallowable Costs

The RCM states that costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. The RCM also states that gifts to students of any kind (e.g., birthday, holiday, graduation) are non-reimbursable. Additionally, certain costs, such as all personal expenses, late fees, costs of food provided to staff, and rent security deposits are not reimbursable. We identified $10,281 in costs that were ineligible for reimbursement because they did not comply with RCM's guidelines, as follows:

- $4,990 in ineligible security deposit expenses;
- $2,387 in personal cell phone expenses;
- $1,922 in late fees associated with utilities and payroll expenses;
- $672 in ineligible graduation gifts to students; and
- $310 for food provided to staff/parents.

We recommend that SED disallow $10,281 in OTPS expenses that did not meet the requirements of the RCM.

Overallocated Utility Costs

According to the CFR Manual, when programs share the same geographic location or more than one State agency is served at the same geographic location, property and related costs must be allocated between the programs/State agencies benefiting from those resources. These costs include expenses such as utilities, repairs and maintenance, depreciation, leases, or mortgage interest. The most common method uses square footage as the statistical basis. However, if the use of this method in a specific situation does not result in a fair allocation of the costs, another reasonable method can be used. Square footage cost allocations must be calculated using the interior square footage. We identified $8,562 in utility expenses that were overallocated to the SED preschool cost-based programs.

During our audit period, Life Skills occupied space in a building with another entity that served school-age students at its Queens location. In total, the building space was 36,712 ft^2. According to Life Skills' lease agreement, Life Skills rented 12,500 ft^2, or 34% of the total space. Accordingly, Life Skills was responsible for 34% (12,500/36,712) of the utility costs for the building (gas, electric, and water). However, we determined this was not a fair and reasonable allocation because Life Skills' space included an outdoor playground (2,466 ft^2) and an open roof storage space (1,031 ft^2) – spaces that used no gas and only an inconsequential amount of electricity and water. We recalculated Life Skills' utility expenses using 9,003 ft^2 (12,500 - 2,466 - 1,031) as the statistical basis, which represents approximately 25% of the total building space. Based on our calculation, Life Skills overallocated $8,562 in utility expenses to SED's preschool cost-based programs, and we recommend that SED disallow this amount.

Recommendations

To SED:

1. Review the recommended disallowances identified by our audit and make the necessary adjustments to the costs reported on Life Skills' CFR and to Life Skills' tuition reimbursement rates, as warranted.

2. Remind Life Skills officials of the pertinent SED requirements that relate to the deficiencies we identified.

To Life Skills:

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.

Audit Scope, Objective, and Methodology

The objective of our audit was to determine whether the costs reported by Life Skills on its CFRs were reasonable, necessary, directly related to the special education program, and sufficiently documented pursuant to SED guidelines. The audit focused primarily on expenses claimed on Life Skills' CFR for the fiscal year ended June 30, 2018 and certain expenses claimed on its CFRs for the 2 fiscal years ended June 30, 2017.

To accomplish our objective, we reviewed the RCM, the CFR Manual, the Regulations of the Commissioner of Education, Life Skills' CFRs, and relevant financial and program records for the audited period. In addition, we evaluated the internal controls over the costs claimed on, and the schedules prepared in support of, the CFRs submitted to SED. We also interviewed Life Skills officials and staff as well as its independent auditor to obtain an understanding of Life Skills' financial and business practices. Additionally, we selected a judgmental sample of reported costs to determine whether they were supported, program related, and reimbursable. Specifically, we reviewed costs that were considered high risk and reimbursable in limited circumstances based on prior audit report findings, such as salaries and fringe benefit expenses, cost allocation, and OTPS expenses. Our samples were based on the relative materiality of the various categories of costs reported and their associated levels of risk. Our samples were not designed to be projected to the entire population of reported costs.

Statutory Requirements

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 4410-c of the Education Law.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our professional judgment, these duties do not affect our ability to conduct this independent performance audit of SED's oversight and administration of Life Skills' compliance with the RCM.

Reporting Requirements

We provided draft copies of this report to SED and Life Skills officials for their review and formal comment. Their comments were considered in preparing this final report and are included at the end of it. In their response, SED officials agreed with our recommendations and indicated that they will take steps to address them. In their response, Like Skills officials generally disagreed with most of our conclusions. Our responses to certain Life Skills comments are included in the report's State Comptroller's Comments. Life Skills officials also included a set of attachments with their response. Those attachments are not included in this report. However, they have been retained on file at the Office of the State Comptroller.

Within 180 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Education shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Exhibit

Life Skills Home Training Tutorial Program for Preschoolers, Inc.
Summary of Reported and Disallowed Program Costs
for the 2015-16, 2016-17, and 2017-18 Fiscal Years

Program Costs	Amount Reported on CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services				
Direct Care	$14,390,327	$24,686	$14,365,641	A, B, D, I
Agency Administration	1,674,998	83,160	1,591,838	
Total Personal Services	**$16,065,325**	**$107,846**	**$15,957,479**	
Other Than Personal Service				
Direct Care	$2,244,346	$22,819	$2,221,527	A, C, E-J
Agency Administration	697,357	148,150	549,207	
Total Other Than Personal Services	**$2,941,703**	**$170,969**	**$2,770,734**	
Total Program Costs	**$19,007,028**	**$278,815**	**$18,728,213**	

Notes to Exhibit

The following Notes refer to specific sections of SED's RCM and the CFR Manual used to develop our recommended disallowances. We summarized the applicable sections to explain the basis for each disallowance. We provided details supporting our recommended disallowances to SED and Life Skills officials during the course of our audit.

A. RCM Section II – Costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented.

B. RCM Section II.13.A.(5) – Compensation to all individuals who have a financial interest in the program, including shareholders, trustees, board members, officers, family members, or others, and who are also program employees must be commensurate to actual services provided as appropriately qualified program employees or consultants and shall not include any distribution of earnings in excess of reimbursable compensation. Compensation shall not exceed the average regional levels paid by similar private providers to comparably qualified and appropriately certified personnel for similar work and hours of employment. Any compensation determined to be excessive will not be reimbursed in the tuition rate.

C. RCM Section II.13.A.(6) – Expenses of a personal nature are not reimbursable.

D. RCM Section II.13.B.(1) – Fringe benefits may include paid time off (e.g., vacation leave, sick leave, military leave, holidays), training, and educational costs, provided the benefit is established by written school policy. Payments into specific employee benefit packages, such as teachers' retirement, employees' retirement, and pension plans, may also be included.

E. RCM Section II.22.C. – Costs of food provided to any staff, including lunchroom monitors, are not reimbursable.

F. RCM Section II.41.B.(2) – Rent security deposits are not reimbursable.

G. RCM Section II.55.B – Gifts to students of any kind (e.g., birthday, holiday, graduation) are non-reimbursable.

H. RCM Section III.1.C.(2) – Adequate documentation for consultants includes, but is not limited to, the consultant's résumé, a written contract that includes the nature of the services to be provided, charge per day, and service dates. In the case of legal and accounting services, all payments must be supported by itemized invoices that indicate the specific services actually provided and, for each service, the date(s), number of hours provided, fee per hour, and total amount charged.

I. CFR Manual (page 3.2) – Only expenses and revenues for the proper CFR reporting period should be included in the CFR. CFRs submitted with expenses and revenues for a different reporting period will not be accepted.

J. CFR Manual, Appendix J (p. 43.3) – When programs share the same geographic location or more than one State agency is served at the same geographic location, property and related costs must be allocated between the programs/State agencies benefiting from those resources. These costs include expenses such as utilities, repairs and maintenance, depreciation, leases, or mortgage interest. The most common method uses square footage as the statistical basis. However, if the use of this method in a specific situation does not result in a fair allocation of costs, another reasonable method can be used. Square footage cost allocations must be calculated using the interior square footage.

Agency Comments - State Education Department

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

EXECUTIVE DEPUTY COMMISSIONER
(518) 473-8381
E-mail: Sharon.Cates-Williams@nysed.gov

September 16, 2021

Mr. Kenrick Sifontes
Audit Director
Office of the State Comptroller
Division of State Government Accountability
59 Maiden Lane, 21st Floor
New York, NY 10038

Dear Mr. Sifontes:

The following is the New York State Education Department's (SED) response to the draft audit report, 2020-S-37, Life Skills Home Training Tutorial Program for Preschoolers, Inc. (Life Skills) - Compliance with the Reimbursable Cost Manual.

Recommendation 1:

"Review the recommended disallowances identified by our audit and make the necessary adjustments to the costs reported on the Life Skills' CFR and to Life Skills' tuition reimbursement rates, as warranted."

We agree with this recommendation. SED will review the recommended disallowances as noted in the report and make adjustments to the reported costs to recover any overpayments, as appropriate, by recalculating tuition rates. NYSED will further review the accounting fees and service, IT, pension, utility, and administrative salary cost recommendations to determine if the adjustments are appropriate.

Recommendation 2:

"Remind Life Skills officials of the pertinent SED requirements that relate to the deficiencies we identified."

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend Life Skills' officials avail themselves of our assistance to help them better understand the rules for cost reporting and criteria for cost reimbursement as presented in the CFR, Regulation and the Reimbursable Cost Manual (RCM). Furthermore, SED will alert Life Skills of online CFR training that is available on SED's webpage.

SED recommends that all individuals signing the CFR certification statements, namely the Executive Director and Certified Public Accountant, complete this training. This training is a requirement for preschool special education providers upon approval and reapproval.

If you have any questions regarding this response, please contact Brian Zawistowski, Assistant Director of the Rate Setting Unit, at (518) 474-3227.

Sincerely,

Sharon Cates-Williams

c: Phyllis Morris
Christopher Suriano
Suzanne Bolling
Brian Zawistowski
James Kampf
Jerry Nestleroad
Jeanne Day

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September 30, 2021

Cheryl May
Audit Supervisor
Office of the State Comptroller
59 Maiden Lane, 21st Floor
New York, NY 10038

Re: State Education Department
Compliance with the Reimbursable Cost Manual
Life-Skills Home Training Tutorial Program
for Preschoolers, Inc.
Audit Report 2020-S-37
Draft Report

Dear Ms. May:

We have reviewed the above-referenced Draft Report concerning whether the costs reported by Life-Skills Home Training Tutorial Program for Preschoolers Inc. (Life-Skills) on its Consolidated Fiscal Reports (CFRs) for the fiscal year ending June 30, 2018 and certain expenses claimed for the two fiscal years ending June 30, 2017, were reasonable, necessary, directly related to the special education programs, and sufficiently documented pursuant to the State Education Department (SED) Reimbursable Cost manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). While we do not challenge certain proposed findings, we do challenge select findings, whole or in part, as set out below.

Personal Services

Pension Expenses

We challenge the auditors' assertion that $39,144 in reported pension costs are not in compliance with the requirements of the Life-Skills Pension Plan for the fiscal year 2016-17, nor requirements of the RCM. The Plan was administered by the designated Administrator at the origination of the Plan, far in advance of the appointment of Life-Skills present management. The initial Plan had been amended, as management has come to understand, while retaining its original name.

Comment 1

As shared with the auditors, and as explained in great detail on several occasions, the Life-Skills School, LTD Profit Sharing Plan was the subject of a US Department of Labor complaint which was dismissed by order in October 2018, upon submission of an amended report replacing an errorous report which had been submitted under prior management of Life-Skills. Prior to that resolution, however, steps were taken to revise the existing Plan for the

Cheryl May
Office of the State Comptroller
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exclusive benefit of Life-Skills Preschool employees. The Plan could not be invalidated or dissolved pending completion of the Department of Labor review. As a result, while the name of the Plan remained unchanged – again pending the outcome of the federal action – the salient terms of the Plan were revised to relate exclusively to the Preschool employees. Contribution provisions and eligibility requirements were amended, again, for the exclusive Plan participation by the Preschool entity employees. Contribution records confirm this claim. It was only upon the dismissal of the federal action was the Plan dissolved, and a new Plan which reflected the terms of the former Plan, *as amended*, was developed. Retention of the original Plan name does not invalidate the Plan, as the auditors would suggest, especially where, as here, the terms are amended to reflect exclusivity to the Preschool. The FY2016-17 pension contributions were made in accordance with the defined compensation and plan year in the Summary Plan Document and allocated consistent with Plan requirements.

Comment 1

As relates to the auditors' findings around the reporting period, Like-Skills School Profit Sharing Plan was dissolved in 12/31/2018. For consistency in reporting periods, management designed the new Voya pension plan, "the Life-Skills Preschool Profit Sharing Plan," (effective 1/1/18), to follow FY reporting periods for recording employee hours and compensation. The $166,500 FY17-18 pension contribution was made into "the Life-Skills Preschool Profit Sharing Plan," based on employee compensation and hours from July 1, 2017 through June 30, 2018 in accordance with the Plan document. As previously stated, the Plan runs on the calendar year for reporting purposes including 5,500 filing. The employee hours and compensation are reported on the fiscal year.

We likewise challenge the auditors' finding that $163,752 in reported pension costs were "out-of-scope" contributions for the period July 2018 through December 2018.

Comment 2

The original pension Plan with Mass Mutual was terminated as part of the USDOL dismissal 12/31/18. See attached USDOL audit letter to the former Plan administrator, Mr. Howard Greenwald, beginning (9/2013) and dismissal letter (10/2018). Mr. Greenwald was retiring and declined to respond to the USDOL requests. Changes to the Plan were restricted during the audit period, however, the School was advised to change the Plan administrator to Barbara Hendricks and did so on the Summary Plan Document dated 12/2013. Please see attached 12/2013 Summary Plan document amendment to add B. Henricks as a trustee, restate the Plan fees for loans and distributions and restore the 1,000+ hour eligibility to ensure only active, eligible preschool employees received future contributions.

A new pension Plan was created with VOYA. The Plan 5,500 reporting is on a calendar year basis, as noted above, but employee hours and compensation are reported on the census using the fiscal year, 7/1-6/30. Please see attached confirmation from Madison Pension, the VOYA plan's third-party administrator. The VOYA plan's name is "The Life-Skills Preschool Profit Sharing Plan."

On 3/15/21 Life-Skills shared with the auditors, the 2016 and 2017 census for the prior Mass Mutual Plan, however, it must be noted that these documents relate to the terminated Mass Mutual profit sharing Plan. An additional census was completed specific to the new VOYA plan

Cheryl May
Office of the State Comptroller
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for the 7/1/17 to 6/30/18 fiscal period. The FY17-18 pension contribution ($166,500) was based on the fiscal year 17-18 employee hours and earnings. Life-Skills shared with the auditors FY17-18 employee hours and earnings and the FY17-18 census provided to Madison Pension, as well as email confirming the census report from TPA.

Accordingly, the premise upon which the auditors base their disallowance – that Life-Skills did not have a pension plan in place for that fiscal year – is factually inaccurate.

Comment 2

Life-Skills does not challenge the auditors' claim that $2,021 in excessive contributions made, nor that the $1,085 in eligible contributions were reported for certain employees who did not meet the completion of the One Year of Service requirement, due to clerical error.

Comment 3

Compensation Exceeding Average Regional Levels

Background

We acknowledge the auditors' restatement of the RCM which directs programs to award compensation for certain employees at average regional salary levels. We challenge, however, the application of the above referenced rule to Life Skills, a not-for-profit entity, in which no individual maintains "financial interest" by the very nature of the corporate structure.

Comment 4

The above-referenced provision directs that all individuals *who have a financial interest* in the program, including shareholders, trustees, board members, officers, family members, or others, and who are also program employees, be compensated at average regional levels paid by similar private providers to comparably qualified and appropriately certified personnel for similar work and hours of employment. The phrase "who have a financial interest" is determinative here. By its very corporate structure, a not-for-profit entity contemplates the absence of financial interest. There are no shareholders with pecuniary or financial interest in either the corporation or its operations. All revenue earned by a not-for-profit organization such as Life Skills is used in pursuing the organization's objectives and mission. This non-profit character is reflected in its tax-exempt status.

Comment 4

While we appreciate the presumed value of restricting compensation to individuals who have an ownership interest in an organization, and therefore a financial interest, such is not the case here with the not-for-profit Life Skills.

While perhaps inartfully presented in the RCM, the public policy sought to be advanced by the restriction is to guard against unjust enrichment by individuals with an ownership interest in an organization receiving state funding.

To apply the restriction to a not-for-profit organization, and to assert that high management personnel within such organization have a "financial interest in the program" distorts both the intent and rationale of the provision. In no other context would higher management personnel be viewed to have any more of a financial interest in a non-for-profit organization than any other employee. Management designations do not create "financial interest" in an organization's operation.

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Simply stated, the provision cited is not applicable to not-for-profit organizations where employees, including high management personnel, do not and can not have any financial interest in the program beyond their own salary.

It bears noting that Life Skills' commitment to compliance with applicable requirements is reflected in the mindful disclosure of all related parties on the CFR for each of the audit years.

Comment 4

Challenge

Even were the application of the above-referenced provisions of the RCM to be found appropriate, we challenge the auditors' assertion that the salaries of the personnel identified were excessive.

As relates to the compensation of the Bookkeeper title position, it is clear to us now that the position code 605 does not appropriately reflect the responsibilities and functions of the identified individual. Of greater concern is our observation that the title 605 embraces extremely disparate positions ranging from receptionist to bookkeeper – each with as disparate salary levels. One would reasonably anticipate variations within salary levels for each identified personnel – bookkeeper, typist, receptionist, etc – commensurate with years of service and additional responsibilities. Thus, it strains creditability that RSU, upon which OSC relies for its comparison salaries, would suggest all such titles/positions within the 605 code receive the same salary -- average regional or otherwise. The characteristics of the individual – education, years of experience, duties – together with program characteristics – size of the agency member of programs operated, location – must all be considered when evaluating relativity of salaries. We are gravely concerned that neither OSC nor RSU engaged in such level of analysis which seriously compromises the RSU fixed "allowable average regional compensation" figure against which Life Skills salaries are being measured.

Comment 5

Accordingly, we continue to believe that the awarded compensation was more appropriately aligned with allowable regional levels than as set out by the auditors, and challenge the proposed disallowance of $77,832.

We also challenge the auditors' characterization of duties performed as "consistent with those of a bookkeeper". The time studies provided clearly reflect tasks performed well beyond the responsibilities of a bookkeeper, including complex administrative functions.

Comment 6

Additional Note

We must reassert our challenge to the propriety of the subject provisions of the RCM which appears to require programs to request "real time" regional average salaries from SED when such specific data is clearly unattainable. Regional average salaries can only be known by SED upon review of cost reports which are submitted <u>after</u> the award of salaries. Simply stated, it is impossible to ascertain "levels paid by similar private providers to comparably qualified… personnel…" until such levels are in fact paid and reported at the end of that fiscal year. SED may well be aware of those "time specific" levels in its determination of the appropriateness of

Comment 5

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salaries during the rate setting process, but those determinations are made after the compilation of prior year data has been completed. It is a contortion of the rate setting process to suggest that SED is aware – or could share – average salary levels before such data is even reported.

Benefit Reimbursement

Life-Skills respectfully challenges the auditors' finding that four employees who received employee benefit reimbursement did not meet the working hours requirement of the life insurance and wellness Plan. Per AFLAC Plan information, all employees who satisfy the eligibility requirement described in the Plan Information Summary and who are eligible to participate in any of the Benefit Plans or Policies offered under the Plan, will be eligible to participate in the Plan (page 18 of the provided plan information). Therefore, participants may continue the coverage as long as they pay premiums regardless of any change in employment status and they do not need to meet any minimum hour requirement in order to remain in the Plan. AFLAC plan information and emails from AFLAC agent were provided to the auditors in support of this conclusion. Comment 7

We likewise challenge the claim that one individual employee received short-term disability insurance benefits for which the employee was not eligible. Similar to the AFLAC Plan, the Transamerica and Inspired wellness Plans are guaranteed renewable. Once a participant establishes eligibility, the participant is entitled to continued coverage. These participants are therapists who established eligibility at the time the policy was made available. Their caseloads change throughout the year due to student enrollment fluctuations and the mandated service needs. Comment 8

Accordingly, we challenge the proposed disallowance of $9,917 and $843, respectively.

Excessive Compensation

Life-Skills challenges the auditors' claims that three employees received in excess of an approved 4% salary increase.

As the documentation provided reflects, the three employees whom the auditors' assert received enhancements beyond the documented 4%, were all, in fact, eligible for the salary increases, as supported by requisite records. The three identified individuals received a minimum wage enhancement as required by law. Comment 9

As relates to the Assistant Executive Director's salary adjustments, as the documentation provided reflects, the employment contract set the salary, yet the payroll modification was delayed as a result of a clerical error. The error was realized when calculating the 4% increase for staff. The corrected pay period of $6,020.83, with 4% company-wide increase, results in an allowable pay period of $6,261.66 (6,020.83+240.84 (4%). Thus, the overclaimed compensation is more appropriately calculated to be $484.96 ($40.41 per pay period x 12 pays from Jan to June 2018). The governing documentation is the employment contract, as a matter of law. The auditors have misrelied on the Board meeting minutes as determinative. Comment 10

The increased payroll for one employee was due to increase in working hours from 35 hours to 40 hours per week, effective 1/1/2018 as documentation reflected.

Life-Skills does not challenge a proposed disallowance of $796.33 attributed to a specific employee.

Other-Than-Personal-Services

Incorrect Reporting Costs Period

Life-Skills relied on the expertise of its contracted accountant to determine the appropriate period against which certain accounting expenses incurred in preparation of specific CFR were to be reported. As the provided invoices reflect, audit/accounting fees were incurred in the preparation of the 2015-16, 2016-17 and 2017-18 CFRs for fiscal years ending 2016, 2017, and 2018. According to the contract accountant, since the work performed was directly related to specific fiscal year operations, the expenses incurred were appropriately reported as expenses of that specific fiscal. In effect, the fees were accrued for the year being audited – the year for which the CFR is being prepared – as would any liability. Accordingly, we must challenge the auditors' finding that these specific costs in the amount of $111,213 were charged in the incorrect.

Comment 11

The contract accountant asserts that the cost of CPA auditing services is both allowable and reimbursable in accordance with the Reimbursable Cost Manual (RCM), the CFR Manual, the Commissioners regulations Section 200.9 (d) and Financial Accounting Standard Board (FASB) Liability requirements.

Comment 12

In accordance with the CFR manual, Life-Skills Preschool operates on a July 1st to June 30th fiscal year, congruent with their school year. Annual audit services performed by an independent CPA are accrued on 6/30 as the expense is incurred for that school year.

Comment 13

The CFR manual Section 7.0, as well as Section III, 2.B of the RCM, requires that all entities receiving Article 81 and/or Article 89 funds must use the Accrual Basis of Accounting, meaning the expense is incurred in the appropriate corresponding fiscal year, not when the expense is actually invoiced and/or paid. As per the CFR Manual Section 7.0, "the goal of accrual accounting is to account in the periods in which they occur…expenses are recognized and recorded as they are incurred, instead of when they are paid." The accrual method of accounting recognizes revenue when the services are provided and expenses when they are incurred. An accrual represents a "future liability", the accountant asserts, the fees associated with the annual audit and financial statements. According to GAAP, expenses are accrued when an obligation to pay an expense is incurred, unpaid expenses are accrued as accounts payable at the end of each accounting period, in this case 6/30, the close of the fiscal and school year. Life-Skills reported the annual CPA audit expenses using this accrual basis accounting method.

Comment 14

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As required by SED, the AICPA (American Institute of Certified Public Accountant), PCAOB (Public Company Accounting Oversight Board), a school/company is required to prepare its annual financial statements and CFR within six months after the end of its financial (school) year as the auditors are aware. In order to conduct audit services, the CPA cannot begin the audit services until the school year has concluded (i.e., after June 30 of the school year). The audit itself, by its nature cannot be completed until after the close of the fiscal year. However, the expense for the audit is accrued (representing a liability) and is appropriately recognized in that fiscal year. According to FASB 2013-14 Liabilities (Topic 405):

Comment 15

A liability has three essential characteristics:

- It embodies a present duty or responsibility to one or more other entities that entails settlement at a specified or determinable date, on occurrence of a specified event, or on demand
- The duty obligates a particular entity, leaving it little or no discretion to avoid the future sacrifice, and
- The transaction or other event obligating the entity has already happened

The annual audit and financial statement preparation meet these standards.

Furthermore, as the contract accountant continues, annual audit fees for Life-Skills Preschool consistently have been reported in this manner each school year. Life-Skills Preschool accrued the yearly audit services of $37,500 at the fiscal year ended (6/30/16, 6/30/17 and 6/30/18). Audit invoices submitted in the subsequent school years are reasonable, necessary, and ordinary, argues the accountant consultant, because audit procedures are conducted in the next school year for the previous year.

Comment 11

Additionally, Section III, E states that in accordance with New York State's Accountancy Reform Law, which took effect July 26, 2009, costs associated with the practice of public accountancy, as defined in law and subject to the criteria above, are reimbursable and subject to the non-direct care cost parameter provided the certified public accountant is registered with the New York State Education Department.

Accordingly, Life-Skills has been advised by the accountant consultant, that the auditors' finding that the expenses were reported in the incorrect reporting period is in error. These expenses were incurred in conjunction with each year's required annual audit and the preparation and certification of the financial statements. For each of the fiscal years in question, the expenses were appropriately accrued in the correct fiscal year and included in the appropriate year's CFR as follows:

Comment 11

- 6/30/2018 – accrued expense for the 2017-18 audit and financial statements
- 6/30/2017 – accrued expense for the 2016-17 audit and financial statements
- 3/23/2016 – accrued expense for the 2015-16 audit and financial statements

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These accrued expenses were then appropriately and correctly reported in the corresponding year's CFR as required by Section 3.0 of the CFR manual, which states that "…only expenses and revenues for the proper Consolidated Fiscal Report (CFR) reporting period should be included in the CFR".

Comment 16

Even were the auditors to assume a contrary position, the reported costs were clearly allowable for specific fiscal years. To disallow these costs in their entirety without some measure of acknowledgement of their propriety as related to succeeding years – years in which the auditors would argue are more appropriately charged – is, we would argue, inappropriate.

Comment 17

Life-Skills does not challenge the auditors' finding that certain IT contract services were reported in the incorrect period although the costs were properly incurred.

Life-Skills does challenge the auditors' finding that certain non-profit filing fees with the Department of Law were misreported, as the provided invoices clearly identify the year for which the fee was imposed and the filing period. Payments are due 6 months upon completion of the school year and the required forms cannot be executed during the academic year. Accordingly, we challenge the proposed disallowance of $497 as appropriately reported.

Comment 18

We do not challenge the auditors' finding of $101 in schools supplies purchased for fiscal year 2016-17 but inadvertently reported in another period.

Unsubstantiated Expenses

We challenge the following specific proposed disallowances for the following specific reasons:

We believe a misconception of corporate identity serves to persist notwithstanding our efforts of clarifications. Life-Skills, Ltd ceased operations in advance of modifications to corporate and transactional documents including pension documents reflecting the operations of the preschool. It was not until final resolution of an outstanding federal audit in 2018 that Life-Skills was authorized to revise documents to reflect the autonomous operation of the Life-Skills preschool program. Accordingly, the reference to Life-Skills School, Ltd as relates to this specific finding, is inaccurate but necessary, providing resolution of the federal audit. We respectfully request reconsideration of the proposed disallowance in the amount of $33,542 relating to accounting fees around the Pension Plan, as appropriately incurred costs for the exclusive benefit of the preschool employees (See: Attached invoices: Non-program accounting fees).

Comment 19

We do not challenge the proposed disallowance of $674 in copier service costs, nor $573 in food expenses for which supporting documentation was unavailable.

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Unallowable Costs

Life-Skills does not challenge the auditors' assessment that $4,990 in costs associated with a lease security deposit was incorrectly reported as an eligible lease expense, although appropriately incurred.

We likewise do not challenge the auditors' finding that $2,388 in costs associated with certain employee cell phone usage was inadvertently reported.

Life-Skills does, however, challenge the proposed disallowances in the amount of $800 as relates to late fees, in as much as these costs are neither late fees, nor penalties, as characterized by the auditors. Those expenses are related to required "deposits on account" imposed by the utility provider, together with an interest charge on the required deposits. Comment 20

Life-Skills does not challenge the remaining $1,131.29 disallowance, nor the proposed disallowance of $310 in food for staff/parents which should have been reported as non-reimbursable costs.

We do not challenge the auditors' disallowance of $672 in costs associated with graduation gifts for students.

Overallocated Utility Costs

Life-Skills must challenge the auditors' finding that the School overclaimed certain utility expenses based on a misconception of usage. Plainly stated, the outdoor space of playground and open roof storage space is fully utilized by the preschool, and does utilize gas, electricity and/or water. As shared with the auditors, the preschool maintains a small garden to advance common core curriculum goals which requires water. The playground area is also provided lighting through exterior mounted lights for safety reasons. Comment 21

As shared with the auditors, the lease agreement between 24-20 Parsons Blvd LLC (the "Landlord"), and Life-Skills Home Training Tutorial Program for Preschoolers, Inc. (the "Tenant") defines the Demised Premises as measuring approximately 12,500 sq. ft. on the ground floor. A later re-measurement performed by the original architect more accurately defined the premises occupied by Life Skills Preschool as measuring 12,700 sq. ft., which includes both the playground/sensory garden (2,466 sq. ft.), and roof space (1,031 sq. ft.).

Utilities bills are based on the space occupied by Tenant as indicated in the Lease. Pursuant to the terms of the Lease, the Landlord allocated utilities cost per sq. ft. including outdoor playground, open roof, and storage space. The terms of the Lease provide that "Tenants shall be required, at its sole cost and expense, to furnish or cause to be furnished, and pay for, all utilities and any other services or facilities to the Demise Premises required by Tenant, including, but not limited to, HVAC, electricity cleaning, rubbish removal, water and sewer use as measured by the meters or sub-meters servicing the Demise Premises."

Accordingly, in as much as the leased Premises includes the playground area and open roof space, it is appropriate that utility costs associated with the entire preschool leasehold Premises be reported as preschool expenses. We respectfully request $8,562 of such costs be reinstated, as consistent with the description of the Premises.

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We appreciate the opportunity to provide this additional information and comments.

Very truly yours,

GREENBERG TRAURIG, LLP

PAM/maf
Enclosures
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State Comptroller's Comments

1. Based on additional information, we revised our report to remove the $39,144 recommended disallowance related to out-of-scope contributions for fiscal year 2016-17.
2. Based on additional information, we revised our report to remove the recommended $163,752 disallowance related to out-of-scope contributions for fiscal year 2017-18. However, $6,816 of this amount was added to another section of our report entitled "Overclaimed Benefit Reimbursement and Pension Expenses." Refer to Comment 3.
3. We increased the recommended disallowance for ineligible contributions for employees who did not meet the 1 year of service from $1,085 to $7,901 – an increase of $6,816.
4. We contacted SED officials to seek clarification on certain sections of the RCM. SED interprets the intent of the RCM section language concerning financial interest to apply to family members of all entities regardless of corporate filing status.
5. We contacted SED officials to obtain the average regional levels of compensation. Life Skills' officials could have done the same.
6. We stand by our findings. We reviewed the Bookkeeper's job duties, time studies, and educational background as well as the definition for the positions of Comptroller, Officer Worker, and Accountant. We determined the Bookkeeper's duties fall under the definition of the Office Worker position listed in CFR Manual Appendix R - being responsible for agency-wide record-keeping, billing, correspondence, and general office duties. We found no evidence that she performed any complex administrative functions.
7. Life Skills is mistaken. We did not recommend a disallowance based on employees' eligibility to participate in the AFLAC plan. Our disallowance was related to employees who did not meet the working hours requirement to be eligible for reimbursement as per Life Skills' benefit reimbursement policy.
8. Life Skills is mistaken. We did not recommend a disallowance based on employees' eligibility to participate in the Transamerica and Inspired wellness plans. Our disallowance was related to employees who did not meet the working hours requirement to be eligible for reimbursement as per Life Skills' benefit reimbursement policy.
9. We did not recommend a disallowance for the three employees who received minimum wage enhancements.
10. We stand by our findings. The payroll register indicates the Assistant Executive Director was given a 10% increase beginning January 2018 and going forward. In addition, there was no retroactive payment made to correct the prior clerical error. For the other employee who received an increase, the payroll register did not reflect the increase from 35 to 40 hours per week. This employee was always working 40 hours per week for the 2017-18 fiscal year. Therefore, there was no substantiation for the increases for these two employees.
11. According to FASB Concepts Statement No. 6, Elements of Financial Statements, paragraph 145: "The goal of accrual accounting is to account in the periods in which they occur for the effects on an entity of transactions and other events and circumstances, to the extent that those financial effects are recognizable and measurable." The audit fee expenses were incurred in the

period subsequent to year end; therefore, they should have been recorded as an expense in the subsequent period. Further, the American Institute of Certified Public Accountants (AICPA) Technical Practice Aids, section 5290.05, refers to accrual of audit fees. The AICPA guidance recommends not accruing the audit fee as an expense of the year under audit and then only to extent the fees are incurred in connection with planning the audit together with preliminary procedures.

12. Our report did not question whether the cost of CPA auditing expenses is a reimbursable expense. Instead, we stated that these expenses were charged to the incorrect CFR reporting period.

13. As stated on page 11 of our report, the CFR Manual states that only expenses and revenues for the proper CFR reporting period should be included on the CFR. Refer to Comment 11.

14. We disagree. Life Skills officials did not provide documentation supporting the CPA firm provided services by the end of the fiscal year, which would have obligated the preschool to accrue the liability for the auditing services. The invoices provided to us were dated after the end of the fiscal years.

15. We stand by our findings. Life Skills officials did not provide any documentation supporting that the auditing fees met the three characteristics of a liability in the period in which they were reported on the CFR. Refer to Comment 11.

16. We disagree. The expenses were not reported in the correct CFR reporting period. The CFR Manual states that CFRs submitted with expenses and revenues for a different reporting period will not be accepted. Refer to Comment 11.

17. We agree that the expenses were allowable for specific years. However, Life Skills did not report them in the correct CFR reporting period, as required by the CFR Manual.

18. Life Skills did not report the filing fees in the correct CFR reporting period.

19. We stand by our findings. The invoices did not indicate the specific services and/or deliverable provided, as required by the RCM. Additionally, we did not recommend a disallowance in the amount of $33,542; instead, we recommended a disallowance of $34,319.

20. We stand by our findings. The invoices clearly show that the late fees/penalties were incurred due to the previous bills not being paid on time.

21. Life Skills is mistaken. Officials told us the playground and open roof storage did not utilize gas. Although the playground and open space did utilize water and/or electricity, this usage was inconsequential.

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