New York State Office of the State Comptroller
Thomas P. DiNapoli
Division of State Government Accountability

Compliance With the Reimbursable Cost Manual

State Education Department
The Child School

Report 2012-S-67 September 2015

Executive Summary

Purpose

To determine whether the expenses reported on the Consolidated Fiscal Reports (CFRs) of The Child School (School) were calculated properly, documented adequately, and allowable pursuant to the State Education Department's (SED) Reimbursable Cost Manual (Manual). Our audit covered the three fiscal years ended June 30, 2011.

Background

The School provides special education services to New York City children between 6 and 21 years of age. The School is certified to provide special education services for up to 239 children. Pursuant to the State Education Law, special education providers, such as the School, are reimbursed for their services using tuition rates established by SED based on the financial information they reported on their annual CFRs. For the three fiscal years ended June 30, 2011, the School claimed about $26 million in reimbursable expenses for the special education programs we audited.

Key Findings

- In total, we identified $978,085 in reported personal service and other than personal service (OTPS) costs that were ineligible for reimbursement.
- The ineligible personal service costs ($435,471) included overstated compensation, ineligible bonuses, non-program-related costs, and other unsupported costs. Among these ineligible costs were: $114,338 in excessive salary expenses for 70 employees; $168,579 in excessive pension costs; and $41,523 in bonuses that were not supported by the required formal performance evaluations.
- The ineligible OTPS costs ($542,614) were either unsupported, unnecessary, unreasonable, or not program related. Among the ineligible OTPS costs were: $163,663 for a less-than-arm's-length contract for building maintenance and cleaning services; $139,647 for non-program-related and/or inadequately documented "Other" expenses; and $72,856 for costs (including depreciation) for the vehicles purchased and leased for the School's Executive Directors.

Key Recommendations

To SED:

- Review the disallowances identified in our report and adjust the School's CFRs and tuition reimbursement rates for the audit scope period as appropriate.
- Work with School officials to ensure they understand and comply with the Reimbursable Cost Manual and the Consolidated Fiscal Reporting and Claiming Manual.

To The Child School:

- Ensure that costs reported on the CFRs prepared after the scope period comply with the Manual requirements.

Other Related Audits/Reports of Interest

Bilingual SEIT & Preschool, Inc.: Compliance With the Reimbursable Cost Manual (2011-S-13)
Churchill School and Center: Compliance With the Reimbursable Cost Manual (2012-S-20)

State of New York
Office of the State Comptroller

Division of State Government Accountability

September 11, 2015

Ms. MaryEllen Elia
Commissioner
State Education Department
State Education Building - Room 125
89 Washington Avenue
Albany, NY 12234

Ms. Vishu Grover
Executive Director
The Child School
587 Main Street
Roosevelt Island, NY 10044

Dear Ms. Elia and Ms. Grover:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for 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 of our audit of the State Education Department entitled *Compliance With the Reimbursable Cost Manual*: *The Child School.* This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance 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,

Office of the State Comptroller
Division of State Government Accountability

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This report is also available on our website at: www.osc.state.ny.us

Background

The Child School (School), a not-for-profit organization located on Roosevelt Island, New York, is certified to provide special education services to up to 239 schoolchildren with disabilities from kindergarten through grade 12.

The New York City Department of Education (DoE) and other school districts, whose students are placed at the School, pay tuition to the School based on rates established by the New York State Education Department (SED). SED develops these rates annually using the financial information reported on the School's annual Consolidated Fiscal Reports (CFRs).

SED's Reimbursable Cost Manual (Manual) offers guidance to special education providers on the eligibility of reimbursable costs, the documentation necessary to support those costs, and the cost allocation requirements for indirect expenses. For the three fiscal years ended June 30, 2011, the School reported about $26 million in program-related costs.

During the audit period, two Executive Directors (including the School's founder) resigned their positions at the School. The first Executive Director (and founder) held this position until June 30, 2010 and subsequently served the School as a consultant. The School's second Executive Director was appointed in July 2010 and held that position until resigning in February 2013. For the 2010-11 fiscal year, the School generated an operating deficit of about $1.5 million.

Audit Findings and Recommendations

We identified $978,085 of ineligible costs claimed on the School's CFRs for the three fiscal years ended June 30, 2011. Generally, the costs in question were either unsupported or non-program related. The ineligible costs included $435,471 in personal service costs and $542,614 in other than personal service (OTPS) costs.

Personal Service Costs

Personal service costs, which include all taxable and non-taxable salaries and fringe benefits paid or accrued to employees on the agency's payroll, should be supported by time and attendance records approved by the employees' supervisors. Such records should report the dates and times worked by the employee and the program(s) the employee provided service to. In addition, the Manual sets forth restrictions and parameters for executive salaries and other personal service charges, such as bonuses.

Overstated Compensation

We identified $310,365 in overstated salaries and fringe benefits on the School's CFRs for the audit period. Specifically, the School claimed:

- $114,338 in excessive salary expenses for 70 employees (63 direct care and 7 administrative) claimed on the 2009-10 CFR;
- $168,579 in excessive pension costs for all three years; and
- $27,448 in health and dental insurance costs on the CFRs for all three years. For example, on June 30, 2011, the School accrued $21,043 in health insurance costs and claimed this expense on their CFR for 2010-11. However, the School did not have documentation to support this expense had been paid.

Compensation Paid to Former Employees

We identified $43,017 in health insurance premiums for 24 former employees and dental insurance premiums paid on behalf of 17 former employees during the audit period. Officials stated these premium expenses were eligible for reimbursement because the School is required to pay them pursuant to COBRA provisions (i.e., up to 30 days after employment ended). We acknowledge this requirement. However, the School paid the $43,017 in premiums in question beyond the required 30 days. Thus, they were ineligible for reimbursement.

Employee Bonuses

The Manual defines bonuses as non-recurring, non-accumulating lump-sum payments to employees, in excess of their regularly scheduled salaries, that are not directly related to the number of hours worked. Bonuses are reimbursable if they are based on merit as measured and supported by employee performance evaluations. We recommend disallowance of $41,523 in bonus payments that the School claimed on its 2010-11 CFR for 32 employees because they were not based on merit. School officials acknowledged that performance evaluations were not done, as required, for these employees.

Unapproved Program Costs

We identified $40,566 in salaries claimed by the School for two individuals who worked for another school program. According to the personnel records for these individuals, including their employee contracts, both were hired to work as paraprofessional One to One Aides. Generally, One to One Aides are funded separately through a supplemental per diem rate. As such, SED requires special education providers to report costs for One to One Aides under its own separate program code/cost column on the CFR per the instructions in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual).

Other Than Personal Service Costs

According to the Manual, OTPS costs must be reasonable, necessary, program related, and adequately supported. Examples of relevant supporting documents include purchase orders, receiving reports, receipts, and vendor invoices. In addition, food, entertainment, gifts, and expenses of a personal nature are not reimbursable. Also, special education providers must adhere to the accrual basis of accounting when claiming costs on the CFR; expenses incurred by the school must be reported in the fiscal year they were incurred, regardless of when they were actually paid. We identified $542,614 in OTPS costs that did not meet the Manual's requirements.

Ineligible "Other" Expenses

For the three fiscal years we audited, the School claimed $527,526 under the "Other" expense category. We recommend disallowance of $139,647 of these expenses because they were ineligible or non-program related or lacked adequate support. The disallowed costs include $68,891 in food, entertainment, and other ineligible expenses. Among the ineligible items, the School claimed:

- $29,605 for food and entertainment, including a holiday party and a catered event for a parent meeting, $1,014 paid for invitations to a founders award benefit, $750 for a scholarship dinner, and $266 for Broadway tickets;
- $7,697 for parking violations;
- $3,464 for expenses normally paid by parents, including $1,864 for ice skating and $1,600 for sporting events. The School claimed the $1,600 in question even though documentation showed that students' parents already paid for these expenses;
- $4,600 for gifts; and
- $726 for a bronze statue.

We identified another $70,756 in charges for which there was either no supporting documentation, the expense was already charged in a different expense category, or the expense was charged to the wrong fiscal year. Certain costs were claimed in the wrong fiscal year because the accrual basis of accounting (required by the Manual) was not properly applied. Further, we identified certain duplicate payments and accrued expenses that were claimed, but were not actually paid.

Repairs and Maintenance

The School claimed $1,172,306 in expenses for repairs and maintenance on its CFRs, of which we recommend disallowance of $58,414. The disallowances included $43,134 for expenses that were either claimed in the incorrect year or were duplicate payments. We also identified $12,623 in expenses the School could not substantiate.

Less-Than-Arm's-Length Transactions

During fiscal 2009-10, the School used Vendor A and Vendor B to provide building maintenance and cleaning services. According to its records for this period, the School paid $118,438 to these two vendors. After the second Executive Director came on board (fiscal 2010-11), he replaced Vendors A and B with a Vendor C. Moreover, the School paid Vendor C $186,670 (or $68,232 more than it paid Vendors A and B) to do ostensibly the same work.

However, Vendor C did not actually perform the contracted work, but subcontracted it to Vendor D, owned by a former coworker of the Executive Director. The School did not use competitive bidding to select Vendors C and D, whose charges significantly increased (by the aforementioned $68,232) the School's maintenance and cleaning costs. As such, we recommend that SED disallow the additional $68,232 in costs attributable to the School's less-than-arm's-length arrangement involving Vendors C and D.

In addition, Vendor D billed the School $95,431 for other work (i.e., snow removal and warehouse work) for which there was no supporting documentation other than Vendor D's invoice. There was no evidence that the work was requested by the School or that it was competitively bid. Further, there was no explanation why this work was not covered by the existing maintenance and cleaning contract with Vendor C. Consequently, we recommend that SED disallow the $95,431 paid to Vendor D. In total, we recommend disallowance of $163,663 ($68,232 + $95,431) in regard to Vendors C and D.

Supplies and Materials

We recommend SED disallow $65,246 of the $326,162 in expenses claimed under Supplies and Materials for the three years we audited. The disallowance includes $11,785 claimed in 2008-09 for which there was no support or the support was not sufficient; $30,739 claimed in 2009-10 for which either there was no support or the expense was claimed in the wrong period or was for a duplicate payment; and $22,722 claimed in 2010-11 for expenses claimed in the wrong period or for which no support was provided.

Vehicle Expenses

According to the Manual, vehicle use must be documented by individual vehicle logs that include the date and time of travel, places of departure and destination, mileage, purpose of travel, and the name of the traveler. Costs associated with the personal use of vehicles are not reimbursable. The Child School purchased and leased a total of six vehicles for use by its two former Executive Directors during the three-year audit period - one vehicle for each Director at a time. These leases were for periods of 36 to 39 months each, and payments ranged from $411 to $560 per month. The expenses associated with these vehicles totaled $72,856 for lease payments, insurance, maintenance, and parking.

We recommend disallowance of the aforementioned $72,856 because the School did not maintain the required vehicle logs or any other documentation to support the vehicles' business use.

Miscellaneous Ineligible Expenses

We also identified $42,788 in other ineligible expenses, as follows:

- $27,480 in general insurance expenses. The school did not provide support for the amount claimed on the CFR;
- $11,520 in audit/legal fees for 2008-09 for organizational assessment costs. The organizational assessment was reportedly done by an out-of-state vendor and included $2,965 in travel costs (e.g., airfare, hotel, meals, and vehicle) and $8,555 to do the assessment and prepare materials. Further, the School did not solicit bids for these services, as required. Also, there is no documentation indicating the necessity of this assessment or the reason competitive bidding was not used; and
- $3,788 in claimed telephone expenses. The disallowance includes duplicate payments and personal phone calls made by two employees to/from foreign countries.

Recommendations

To SED:

1. Review the disallowances identified in our audit and make the appropriate adjustments to costs reported on the CFRs and to the School's tuition reimbursement rates, as appropriate.

2. Direct School officials to fully comply with provisions of the Manual and to ensure that requests for reimbursement include only those expenses that are allowable.

To The Child School:

3. Ensure that requests for SED reimbursement include only those expenses that are allowed by the Manual.

Audit Scope and Methodology

We audited the expenses reported on The Child School's CFRs for the three fiscal years ended June 30, 2011. The objectives of our audit were to determine whether the costs reported by the School were properly calculated, adequately documented, and reimbursable pursuant to the Manual.

To accomplish our objectives, we reviewed the School's CFRs and supporting financial records, including audit documentation maintained by the School's independent CPAs, and interviewed School officials and staff to obtain an understanding of their financial and business practices. In addition, we interviewed SED and DoE officials to confirm our understanding of Manual requirements. We also reviewed supporting documentation for a sample of expenses charged to the programs subject to our audit. The scope of our audit work on internal controls focused on those controls over personal service and other than personal service expenditures.

We conducted our audit in accordance with generally accepted government auditing standards. These 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

Authority

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

Reporting Requirements

We provided a draft copy of this report to SED and The Child School officials for their review and comment. Their comments were considered in preparing this draft audit report and are attached in their entirety at the end of the report.

In response to our draft report, SED officials agreed with our recommendations and indicated that they will take steps to address them. In their response, The Child School officials accepted some of our conclusions, but disagreed with many of our proposed disallowances. School officials also noted that our audit period coincided with significant transitions at senior management positions which contributed to the School's inability to provide the required documentation and justification for certain claimed costs. Our rejoinders to certain comments in The Child School's response are included in the report's State Comptroller's Comments.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of 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 the recommendations were not implemented, the reasons why.

Contributors to This Report

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Exhibit

The Child School
Schedule of Submitted, Disallowed, and Allowed Program Costs
for the Fiscal Years 2008-09, 2009-10, and 2010-11

Program Costs	Amount Per CFR	Amount Disallowed	Amount Allowed	Notes to Exhibit
Personal Services				
Direct Care	$13,020,208	$429,534	$12,590,674	
Agency Administration	1,603,818	5,937	1,597,881	
Total Personal Services	**$14,624,026**	**$435,471**	**$14,188,555**	A - C, H, J, M
Other Than Personal Services				
Direct Care	$10,193,446	$406,158	$9,787,288	
Agency Administration	975,165	136,456	838,709	
Total Other Than Personal Services	**$11,168,611**	**$542,614**	**$10,625,997**	A, D - I, K - N
Total Program Costs	**$25,792,637**	**$978,085**	**$24,814,552**	

Notes to Exhibit

The Notes shown below refer to specific sections of the Reimbursable Cost Manual upon which we have based our adjustments. We have summarized the applicable sections to explain the basis for the disallowances. Details of the transactions in question were provided to SED and School officials during the course of our audit.

A. Section I - Costs must be reasonable, necessary, program-related, and sufficiently documented.
B. Section 1.21.A - Costs incurred for entertainment of officers or employees, or for activities not related to the program, or any related items such as meals, lodging, rentals, transportation, and gratuities, are not reimbursable.
C. Section 1.21.B - All personal expenses, such as personal travel expenses, beverage charges, gifts to staff and vendors, parties for staff, and holiday parties are not reimbursable.
D. Section 1.22 - Costs resulting from violations of, or failure by, the entity to comply with Federal, State, and/or local laws and regulations are not reimbursable.
E. Section 1.23.C - Costs of food provided to any staff, including lunchroom monitors, are not reimbursable.
F. Section 1.57.D - Costs for the personal use of a program-owned or leased automobile are not reimbursable. The costs of vehicles used by program officials, employees, or Board members to commute to and from their homes are not reimbursable.
G. Section 1.21(A) - Costs incurred for entertainment of officers or employees, or for activities not related to the program, or any such related items such as meals, lodging, rentals, transportation, and gratuities are not reimbursable.
H. Section II.A(1) - Compensation costs must be based on approved, documented payrolls. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid. Employee time sheets must be signed by the employee and a supervisor, and must be completed at least monthly.
I. Section II.A(3) - All payments to consultants must be supported by itemized invoices that indicate the specific services actually provided; and for each service, the date(s), number of hours provided, the fee per hour, and the total amount charged. In addition, when direct care services are provided, the documentation must indicate the names of students served, the actual dates of service, and the number of hours of service to each child on each date.
J. Section II.A(4) - All purchases must be supported with invoices listing items purchased and indicating date of purchase and date of payment, as well as cancelled checks. Costs must be charged directly to specific programs whenever possible.
K. Section II.A(5) - Logs must be kept by each employee indicating dates of travel, destination, purpose, mileage, and related costs, such as tolls, parking, and gasoline; and must be approved by a supervisor for reimbursement.
L. Section II.A(10) - Vehicle use must be documented with individual vehicle logs that include, at a minimum: the date and time of travel, to and from destinations, mileage between each, purpose of travel, and name of traveler. If the vehicle was assigned to an employee, the name of the employee to whom it was assigned must also be listed.

M. Section II.C(10) - A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.
N. Section II.C(4) - Less-than-arm's-length (LTAL) relationships must be disclosed in the notes to the financial statements.

Agency Comments - State Education Department

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

DEPUTY COMMISSIONER
Office of Performance Improvement and Management Services
O: 518.473-4706
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November 20, 2014

Mr. Frank Patone
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street – 11th Floor
Albany, NY 12236

Dear Mr. Patone:

The following is the New York State Education Department's (SED) response to the draft audit report, (2012-S-67) of the State Education Department Compliance with the Reimbursable Cost Manual: The Child School.

In addition to the actions that will be taken in response to the specific recommendations described below, the Department will closely examine the circumstances that led to the findings described in the audit report. This examination will include an assessment of the programmatic oversight and fiscal management employed at The Child School and will be a factor in the consideration of the continued approval of this provider and the corrective action or enforcement actions that may be warranted.

Recommendation 1: Review the disallowances identified in our audit and make the appropriate adjustments to costs reported on the CFRs and to the School's tuition reimbursement rates, as appropriate.

We agree with this recommendation. The Department will review the recommended disallowances, as noted in the report, and make adjustments to reported costs to recover any overpayments as appropriate by recalculating tuition rates.

Recommendation 2: Direct School officials to fully comply with provisions of the Manual and to ensure that requests for reimbursement include only those expenses that are allowable.

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the Child School's officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual (RCM). Furthermore, Consolidated Fiscal Report (CFR) training is available both in person, at six locations offered across the State, and online on the Department's webpage. The Department recommends that all individuals signing the CFR certification statements, namely Executive Directors and Certified Public Accountants, complete this training. At the direction of the Board of Regents, the Department intends to require that this training be mandatory and will require individuals to verify that they have completed the training.

If you have any questions regarding this response, please contact Suzanne Bolling, Director of Special Education Fiscal Services at (518) 474-3227.

Sincerely,

S Cates-Wi

Sharon Cates-Williams

c: James P. DeLorenzo
Suzanne Bolling
Maria Guzman

Agency Comments - The Child School

Maari De Souza
Founder

December 7, 2014

Frank Patone, Audit Manager
Office of the New York State Comptroller
123 William Street
21st Floor
New York, NY 10038

Dear Mr. Patone:

We have reviewed the DRAFT Audit Report issued for The Child School for the school years 2008-09, 2009-10, and 2010-11. We appreciate this opportunity to respond.

Background

The Report provides a brief overview of services provided by The Child School and some historical information about its leadership. Additional historical information is necessary to clarify the Findings and to facilitate the ongoing process of corrective action.

We urge that this background information be included in the body of the Report (rather than in an Appendix for responses) because the School is now poised to make critical contributions in areas of recognized need in New York City. It is important that public reporting of past errors be fairly presented so that such reporting does not impair the efforts of the School to move forward and to continue to provide educational opportunities to students with severe disabilities who are capable of strong academic achievement.

To fully and fairly represent the findings in the Report, the Background chapter of the Report should include the following:

1) **Corrective Efforts Initiated during the 2008-2009 School Year**

   The first year covered by the Audit was 2008-2009. This was a year of major transition for the School. Management issues had emerged and the Board independently initiated an organizational assessment by an outside professional organization. Expenditures for the report were criticized by the Auditor but the assessment was a critical first step in revamping the management structure of the School.

* Comment 1

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FOUNDED IN 1973. CHARTERED AS A NON-PROFIT EDUCATIONAL INSTITUTION BY THE BOARD OF REGENTS OF THE STATE OF NEW YORK

* See State Comptroller's Comments, page 24.

2) **2009-2010. Resignation of Executive Director**

OSC reported on findings with respect to 2009-2010, but such findings must be viewed in the context of the significant transitional issues leading up to the resignation of the Executive Director who founded the School and led it for some forty years. During this year, in spite of administrative disruptions the School continued to meet its core objectives. Twenty seven students received high school diplomas. Of these, 8 received Advanced Regents Diplomas and 7 received Regents Diplomas. This record of academic success in a special education school for children with severe disabilities is extraordinary.

* Comment 2

3) **2010-2011. First Term of New Executive Director**

This year marked another year characterized by disruption in all aspects of management, including financial operations. An Executive Director hired to replace the founder in July 2010 (not July 2011 as stated on page 5 of the Draft Report) was replaced by the Board of Trustees within the next three years. Difficulties with budgetary controls during this year are pointed out in the Audit Report, but it should also be reported that during this year nineteen students received high school diplomas, including 9 with Advanced Regents Diplomas and 5 with Regents Diplomas. The School also developed a program (subsequently approved by the State Education Department) to serve children with autism spectrum disorders who could benefit from its rigorous academic program.

* Comment 2

4) **2012-2013. The Audit Process**

In or around 2012, the New York State Office of the State Comptroller began its process of auditing the School. It should be noted in the Final Report that before preliminary audit findings were issued, the School had itself initiated a review to identify and correct the shortcomings identified in the preliminary and final reports. A consultant with a financial background was retained in November 2012 and appointed interim Executive Director in early 2013 specifically for the purpose of examining financial conditions and instituting financial controls.

In a preliminary report dated March 22, 2013, the Chief Financial Officer, prepared a "Log of Improvements" in record keeping and budgetary controls. This document was submitted to OSC with a preliminary response dated August 22, 2013.

Importance of Services

The School plays a unique role in the continuum of services available to students in New York City. It has developed programs that enable students with autism spectrum disorders and emotional disabilities whose needs cannot be met in public schools, charter schools, or other approved private schools to achieve Advanced Regents and Regents Diplomas. This is an important public purpose and the sums spent to fund the program have, historically, been highly cost effective in terms of developing college and career ready students. Accordingly, maintaining the viability of the School, now, in the face of the Audit findings for the three transitional years covered by the Audit, is fully consistent with the stated objectives of the OSC to help State and local government agencies manage government resources efficiently and effectively. This fact should be acknowledged in the form and content of the Final Report.

Disallowances

a. Not Contested

Because the Audit years covered a period in which the School was led by two Executive Directors who have since resigned, the School is hampered in its ability to provide explanations for certain book entries and expenditures. Moreover, the School has acknowledged that during the Audit years, under prior leadership, it did not have systems in place to maintain some of the documentation necessary to demonstrate full compliance with the Reimbursable Cost Manual. Accordingly, to the extent that disallowances result from inadequate record keeping and misallocations the School will not contest the major findings of the OSC. We will, rather, urge that a plan for reimbursement of any costs that are excluded from the rate as a result of these disallowances be designed with attention to the School's ongoing viability.

Contested Disallowances

Where OSC has recommended that costs be disallowed that are accurately recorded and incurred in good faith to promote an educational environment conducive to learning, we urge that these disallowances be reversed. The following disallowances of expenses incurred to promote the school's educational mission are challenged.

1. Overstated Compensation

The OSC report recommends that $114,338 be disallowed for the 2009-2010 school year as overstated compensation. This amount includes compensation of $54,350 which was accrued in accordance with Generally Accepted Accounting Principles (GAAP) as compensation earned in 2009-2010 but not paid to staff until June 2011. We had to delay these payments until June 2011 because of the severe cash flow problems the school was facing. These payments were paid through an extra payroll run of $152,227 on June 30, 2011, included in Exhibit 1 (including 1A – 1F) which is submitted under separate cover. Because $54,350, of the disallowed amount was properly accrued and paid, this expense should be reinstated. We acknowledge that a portion of the amount accrued was not paid, but it is important to note that this portion of the accrual was reversed in 2010-11 and to the extent that the undisbursed accrued amount is disallowed in 2009-10, it would have to be added back to the expenses for 2010-11. Note that the extra payroll run of June 30, 2011 also included payment of the 2009-10 Excess Teacher Turnover grant of $52,850 and $10,827 for 2010-11 coaching services and a 2010-11 supplemental payment of $34,200 for current employees.

* Comment 3

2. Retirement Payments

Payments made to the Child School Retirement Plan were improperly disallowed. Retirement fund payments in the amount of $239,860 were accrued in 2009-2010 for eligible employees. Payments of these accrued amounts were made on October 21, 2010 ($99,642);

January 12, 2011 ($5,722.07); and October 17, 2011 ($105,364.49). The total of the three-part contribution was $210,728.58. In accordance with the Plan, contributions for 2009-2010 were made only for employees who had worked for the School for at least two years. The names and start dates of these employees are included in Exhibit 2 (including 2A – 2D). The statement that payments were made for non-eligible employees is inaccurate. Disallowances for these Payments should be reviewed and reversed.

*
Comment
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3. Overpayment of Wages in the Amount of $10,149

This salary expense was properly incurred for a then current employee of the School. The amount should have been reported on CFR-3 but was inadvertently assigned to a previous employee with a different name on the schedule used in preparation of the CFR-1. A W-2 Form for the then current employee is included in Exhibit 3 (including 3A – 3B) to document this actual and legitimate expenditure.

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Comment
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4. Holiday Parties, Food, Theater tickets, Awards, Sports, School Supplies and Materials

The School enrolls many financially disadvantaged students, placed by the Department of Education for a free and appropriate education because of the severity of their needs. Maintaining a nurturing and enriched environment has been critical to the success of many of these students. Historically, the School was able to provide certain necessary "extras" that are in fact critical to the School's program through regular fund raising. During the transition years covered by the Audit, fund raising efforts were disrupted, but, as reflected in the diploma data cited above, School leadership managed to maintain the integrity of the core elements of the program. Expenses for food, holiday parties, caps and gowns, sporting events for children whose parents were unable to contribute, Broadway tickets as part of preparation of the School's theater program, theater scenery, supplies and materials, and a leadership award to an alumnus are all legitimate costs of providing an educational environment conducive to learning. Going forward, fund-raising efforts have been resumed, but expenses incurred to maintain an appropriate environment during the transition years were appropriate and should be reimbursed. Disallowances for these OTPS costs should be reversed.

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Comment
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5. Repairs and Maintenance

For the 2008 - 2009 School year, an expense in the amount of $13,008 for repairs and maintenance was accrued in a journal entry and paid in October 2009. See attached Exhibit 4. In 2009-2010, the accrual was reversed, offsetting the payment. Accordingly, the payment of $13,008, properly incurred as a fee for securing certificates of occupancy for the four buildings used by the School, was not a duplicate payment and this disallowance should be reversed.

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Comment
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A disallowance of $15,780 for storage should be reversed. Storage space was secured prior to 2008-2009 to store unused furniture and equipment during periods of enrollment fluctuations. Storage space was secured when needed to prevent safety hazards resulting from crowded conditions and to maintain access to equipment no longer in active use. Televisions that were removed from classrooms when Smart Boards were installed were, for example, placed in

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Comment
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storage for possible later use and equipment was frequently brought back into service when needed. Temporary use of the storage facility in 2012 by the former Executive Director for some personal items should not result in the disallowance of a 2009-2010 expense that was reasonable and appropriate at the time that it was incurred.

6. Vehicle Expenses

Clarification is requested of a reference in the Report to "six vehicles" purchased or leased by the School "for use by its two former Executive Directors." One such vehicle was a van purchased for School use. The cost of this van should be reinstated as a reasonable and necessary expense. While OSC has found that time records were not adequate to justify reimbursement of costs of the vehicles assigned to former Executive Directors (a practice discontinued in 2013) not more than one vehicle for either individual was leased at any one time.

* Comment 8

7. Strategic Plan

OSC recommended disallowance of $11,520 incurred in 2008-2009 for an organizational assessment. The vendor, though located out of state, was familiar with and had worked with other not-for-profit organizations in New York City and was highly recommended to the Board. As noted above, the assessment was needed to help manage a critical transition in the leadership of the School. The expense was directly related to the special education program run by the School and the assessment report was critical to the Board's ability to complete the first phase of the transition which has now, in 2014 - 2015, been successfully accomplished. This sum should be allowed as reasonable and necessary.

* Comment 2

8. General Insurance Expenses

OSC recommended disallowance in the total amount of $27,480 for insurance payments made during the three audit years. In 2008-2009, the School listed Insurance expense on the CFR in the amount of $43,004.27. Of this amount, $2,720 was disallowed for inadequate documentation. Similarly, in 2009-2010 the School claimed insurance expense in the amount of $42,517.06, and $3,469.50 was disallowed for inadequate documentation. Verification of the previously disallowed payments is now attached in Exhibit 5. In 2010-2011, the School's stated insurance expense was $61,855.61 on the CFR, but actual payments were $52,682.64. Verification of these payments is also included in Exhibit 5. Accordingly, the amount disallowed for 2010-2011 should be reduced to $9,172, the total disallowance resulting from incomplete documentation of expenses over the three year period should not exceed $9,172, and $19,685 of the prior disallowance for the three year period should be reversed.

* Comment 9

Conclusion and Request for Meeting

The current School leadership urgently requests an opportunity to meet with representatives of OSC to review this response. We request this opportunity because we believe that the circumstances of the transitions described herein severely limited our ability to respond to Preliminary Findings in August 2013 and to respond now to the Draft Report in a timely and comprehensive way.

In addition, the School is now moving forward in directions that are extremely promising and that are fully consistent with the mission of this State to provide full educational opportunities to children with disabilities. . We believe that as new School leaders we need and should have an opportunity to discuss this response directly with the Audit team before a final document is released.

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Comment
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Thank you for your attention to this response. We understand the public spirit in which the Audit and report are undertaken and we urge your attention, in the same spirit, to the manner in which the report is presented.

Sincerely yours,

Vishu Grover,
Executive Director

Michael Patterson,
Chair of the Board of Trustees

State Comptroller's Comments

1. On page 11 of the report, we added language referencing The Child School's comments related to the transition issues which impacted the School during the audit period.
2. We acknowledge that changes in management can add complexity to a provider's program and administrative operations. Nevertheless, such changes do not obviate management from compliance with the applicable requirements, including the provisions of the Reimbursable Cost Manual (Manual), as prescribed by oversight authorities, such as SED.
3. School officials classified $54,350 of the original disallowance as "bonus" payments. However, they did not provide us with written performance evaluations, as otherwise required by the Manual, to document that the employees earned the bonuses based on their performance. Further, although officials assert that the remaining disallowances (of $59,988) were reversed in a subsequent year, they provided no documentary evidence of that reversal.
4. The fact remains that the amount in question ($105,364) was paid during the second fiscal year (2011-12) after the fiscal year (2009-10) in which the cost was claimed on the CFR. Consequently, it is unclear that a liability of $105,364 actually existed in 2009-10. Although generally accepted accounting principles provide for the accrual of expenses, the School could not sufficiently demonstrate that the $105,364 should have been claimed for the 2009-10 year, and consequently, we maintain that it should have been claimed for the year (2011-12) in which it was actually paid.
5. Based on documentation provided by The Child School, we allowed the $10,149 in question and revised the final report accordingly.
6. Based on information provided by The Child School, we reduced the disallowance in question by $4,013 and revised the final report accordingly.
7. Based on information provided by The Child School, we reduced the disallowance in question by $28,788 and revised the report accordingly.
8. We revised the report to note that not more than one vehicle was provided for either individual at any one time.
9. We reviewed the information provided by The Child School and concluded that it did not support the insurance costs in question. Consequently, we did not adjust the proposed disallowances for insurance costs.
10. As requested, we met with The Child School officials prior to the issuance of this final report. We considered the information provided by School officials at the meeting in the preparation of this report.