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 Sunshine Developmental School

Report 2012-S-64 September 2015

Executive Summary

Purpose

To determine whether the costs reported by the Sunshine Developmental School on its Consolidated Fiscal Reports (CFRs) were allowable and properly documented pursuant to the State Education Department's (SED) Reimbursable Cost Manual (Manual). The audit included all expenses claimed for the three fiscal years ended June 30, 2011.

Background

The Sunshine Developmental School (Sunshine Developmental) provides special education and integrated therapeutic preschool programs for about 600 children between the ages of three and five years in the New York City boroughs of Brooklyn, Queens, and the Bronx. Sunshine Developmental's special education programs (Programs) are funded by the New York City Department of Education (DoE). The DoE reimburses Sunshine Developmental via tuition payments based on reimbursement rates set by SED. SED periodically revises these rates based on the financial information reported by Sunshine Developmental on its annual CFRs. SED issued the Manual to provide guidance to special education providers on the eligibility of reimbursable costs and the documentation necessary to support those costs. The State reimburses the DoE for a portion of the payments to Sunshine Developmental. Sunshine Developmental reported Programs-related costs of about $27 million for the three fiscal years ended June 30, 2011.

Key Findings

We identified $1,776,434 in unsupported and/or inappropriate costs charged to the Programs we audited. The ineligible charges include personal service costs totaling $1,392,542 and non-personal service costs totaling $383,892. Specifically, Sunshine Developmental improperly claimed:

- $1,375,964 in compensation paid to individuals for services provided to business affiliates of Sunshine Developmental. The services in question did not support the audited Programs;
- $16,578 of unsupported payroll charges; and
- $157,873 in non-reimbursable legal and lobbying fees; $53,732 to a contractor for undocumented services; and $172,287 in over-allocated and/or undocumented miscellaneous expense charges.

Key Recommendations

To SED:

- Review the disallowances identified in this report and, considering any previous SED disallowances, adjust Sunshine Developmental's CFRs and tuition rates as appropriate.
- Work with Sunshine Developmental officials to help ensure that only eligible costs are included on their CFRs.

To Sunshine Developmental:

- Discontinue claiming reimbursement for ineligible expenses.

- Explain all Manual requirements to staff involved in the CFR preparation and cost reimbursement processes.

Other Related Audits/Reports of Interest

Bilingual SEIT & Preschool, Inc.: Compliance with the Reimbursable Cost Manual (2011-S-13)
IncludED Educational Services, Inc.: Compliance with the Reimbursable Cost Manual (2010-S-59)

State of New York
Office of the State Comptroller

Division of State Government Accountability

September 10, 2015

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

Mr. Brian Koffler
Co-Executive Director
Sunshine Developmental School
91-10 146th Street
Jamaica, NY 11435

Dear Ms. Elia and Mr. Koffler:

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, entitled *Compliance With the Reimbursable Cost Manual*, of our audit of the costs submitted by Sunshine Developmental School to the State Education Department for purposes of establishing preschool special education tuition reimbursement rates. 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 draft 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

Sunshine Developmental School (Sunshine Developmental) provides special education and integrated therapeutic preschool programs for about 600 children between the ages of three and five years in the New York City boroughs of Brooklyn, Queens, and the Bronx. During our audit period, Sunshine Developmental was owned and operated by MetSchools, Inc. (MetSchools), which handled all of Sunshine Developmental's administrative and fiscal operations, including the allocation of costs between Sunshine Developmental and affiliated programs and entities.

Sunshine Developmental's special education programs (Programs) are funded by the New York City Department of Education (DoE). DoE reimburses Sunshine Developmental via tuition payments and fees based on reimbursement rates set by the State Education Department (SED). SED periodically revises these rates based on the financial information reported by Sunshine Developmental on its annual Consolidated Fiscal Reports (CFRs).

SED issued the Reimbursable Cost Manual (Manual) to provide guidance to special education providers on the eligibility of reimbursable costs and the documentation necessary to support those costs. The Manual also sets forth acceptable methodologies for providers to use when calculating and allocating indirect costs (e.g., utilities) and costs allocable to multiple programs. The State reimburses the DoE for a portion of the payments to Sunshine Developmental based on statutory rates.

Sunshine Developmental reported Programs-related costs of about $27 million for the three fiscal years ended June 30, 2011. At the time we commenced our audit field work, the CFR for fiscal year 2010-11 was the most recent certified CFR submitted by Sunshine Developmental.

Audit Findings and Recommendations

We identified $1,776,434 in unsupported and/or unrelated personal service and non-personal service costs charged to the audited Programs during the three fiscal years ended June 30, 2011. (See Exhibit at the end of report.)

Personal Service Costs

We identified $1,392,542 in non-reimbursable personal service costs inappropriately charged to the Programs. The disallowances include inappropriate salary allocations and unsupported salary charges.

Inappropriate Salary Allocations

According to the Manual, compensation payments to employees charged on the CFR must be supported by time records or other documentation of the employees' work efforts. This is especially important when a provider operates multiple programs with different funding sources and staff may work on more than one program or affiliated entity. The majority ($1,375,964) of our personal service-related recommended disallowances pertain to inappropriate salary and fringe benefit allocations.

For example, Sunshine Developmental's Executive Director (ED) also served as the ED for the Sunshine School (an affiliated entity) and MetSchools (the parent company). According to the Programs' CFRs, the ED's entire compensation (salary and fringe benefits) of $436,736 was charged to Sunshine Developmental, indicating that the ED devoted 100 percent of his work day to Sunshine Developmental. Two individuals held the ED position during our review period. This included Sunshine Developmental's owner and one of his sons.

Since neither Sunshine Developmental nor the Sunshine School or MetSchools maintained time distribution records to support the ED's work effort among the various entities, we recalculated the portion of the ED's salary that should have been charged to the Programs based on the ratio value method (i.e., the expenses of Sunshine Developmental as a percentage of the expenses reported by all affiliates and programs under the MetSchools umbrella). As a result, we determined that only $188,893 of the ED's compensation should have been charged to the Programs for this three-year period. We recommend SED disallow and recover the $247,843 in salary and fringe benefits inappropriately charged to the Programs.

We also found that $460,632 in claimed compensation was for 57 employees (1:1 teacher aides) for whom the related costs were ineligible per the Manual. According to SED, reimbursements for such aides are not cost-based. Rather, localities pay providers for aides based on a fixed fee-for-service basis.

Further, the compensation paid to the administrative personnel working at MetSchools' headquarters is allocated among its various programs and affiliates. According to the Manual, the preferred method to allocate these personal service-related indirect costs is the ratio value method described above. In this case, the allocation to Sunshine Developmental for the three-year review period should have resulted in an aggregate charge of $457,920. MetSchools officials, instead, had charged a total of $689,213 for such costs to Sunshine Developmental over this period. They informed us that the annual percentages they used to allocate these costs were 25 percent (2008-09), 25 percent (2009-10), and 35 percent (2010-11). However, they could not support why these percentages should be used as opposed to the results of our ratio value calculations. Thus, we recommend that SED disallow and recover $231,293 ($689,213 - $457,920) in administrative compensation costs that were overcharged to the Programs.

The remaining $436,196 of over-allocated charges to the Programs include staff employed by affiliated entities and programs, such as the day care program at the Sunshine School and the administrative staff at Williamsburg Northside Preschool.

Other Unsupported Salary Charges

Lastly, we compared the personal service costs charged to the Programs to the corresponding supporting documents (e.g., employee contracts, payroll ledgers) and identified $16,578 of inappropriate charges as follows:

- $11,741 in compensation charged without support. When questioned, Sunshine Developmental officials stated that this amount was not actually paid compensation, but rather a plug-in figure used to reconcile the payroll ledger to the CFR; and
- A mathematical check of the fiscal 2009-10 and fiscal 2010-11 payrolls identified an additional $4,837 overcharge to the Programs.

Other Non-Personal Service Matters

At the time of our audit, certain other non-personal service matters, with potential financial reporting implications, were the subject of ongoing review and investigation by other State oversight authorities. Under those circumstances, our audit did not address such matters.

Non-Personal Service Costs

Non-personal service costs must be supported by documents, such as purchase orders, vendor invoices, and receiving reports. Together, these documents note what service or product was procured, when it was procured and at what cost. As with personal service costs, those costs applicable to multiple programs must be allocated using a reasonable and supportable methodology. We identified $383,892 of inappropriate and/or unsupported non-personal service costs charged to the Programs.

Lobbying and Legal Costs

According to the Manual, legal expenses are not reimbursable unless they are necessary and directly related to the operations of the Programs. In addition, lobbying expenses are not reimbursable for any reason. Nonetheless, Sunshine Developmental charged a total of $157,873 of such costs on its CFRs ($99,662 in non-Programs-related legal fees and $58,211 in lobbying expenses). We recommend SED disallow and recover these inappropriate charges.

Unsupported Contract Payments

In FY 2010-11, MetSchools awarded a $200,664 software and computer/network maintenance contract to Computability, Inc. Sunshine Developmental charged $53,732 of this contract's costs to the Programs audited. However, Sunshine Developmental officials were unable to provide us with any documentation or other evidence of the services provided by this vendor (other than the existence of the software). The vendor did not respond to our multiple requests for further documentation. We recommend SED disallow the $53,732.

Other Inappropriate Non-Personal Service Charges

When tracing selected expense items from Sunshine Developmental's CFR to its general ledger, supporting worksheets, and other documents, we identified several additional inappropriate allocation-related charges (totaling $172,287) that were claimed on the CFR, as follows:

- $51,975 of professional fee payments that were over-allocated to the Programs, along with $23,371 in office expenses;
- $14,674 in cell phone costs for which no supporting documentation was provided; and
- $82,267 in over-allocated MetSchools rent expenses.

Recommendations

To SED:

1. Review the disallowances identified in this report and, considering any previous SED disallowances, adjust Sunshine Developmental's CFRs and tuition rates as appropriate.

2. Work with Sunshine Developmental officials to help ensure that only eligible costs are included on their CFRs.

To Sunshine Developmental:

3. Discontinue claiming reimbursement for ineligible expenses.

4. Explain all Manual requirements to staff involved in the CFR preparation and cost reimbursement processes.

Audit Scope and Methodology

We audited the propriety of, and support for, the expenses reported by Sunshine Developmental on its CFRs for the three fiscal years ended June 30, 2011. The objectives of our audit were to determine whether the costs reported by Sunshine Developmental were program appropriate, adequately documented, and eligible for reimbursement pursuant to SED's Manual. At the time of our audit, certain matters were subject to ongoing review and investigation by other state oversight authorities. As such, our audit does not address those matters.

To accomplish our objectives, we interviewed relevant SED, MetSchools, and Sunshine Developmental officials to obtain an understanding of Sunshine Developmental's financial and business practices. As part of our audit, we reviewed SED's internal controls over the CFRs submitted by the provider. In addition, we reviewed Sunshine Developmental's CFRs and available supporting books and records for the audit period. We also met with Sunshine Developmental's independent Certified Public Accounting firm to understand the scope of its audit work and to obtain audit-relevant information. To assess compliance with the Manual, we reviewed and assessed the propriety of both personal and non-personal service costs charged to the audited Programs by selecting a judgmental sample of expenses charged in both categories. During the course of this audit, work was temporarily suspended to avoid interfering with a review by another external oversight authority.

We conducted our compliance 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 did provide 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; Article II, Section 8 of the State Finance Law; and Section 4410-c of the State Education Law.

Reporting Requirements

A draft copy of our audit report was provided to SED and Sunshine Developmental officials for their review and comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of the report. In their response to our draft report, SED officials agreed to implement our report's recommendations. In their response, Sunshine Developmental officials agreed with certain findings, but disagreed with others. Our rejoinders to certain Sunshine Developmental comments 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 if the recommendations were not implemented, the reasons why.

Contributors to This Report

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Vision

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Exhibit

Sunshine Developmental School
Schedule of Submitted and Allowed Program Costs
For Fiscal Years 2008-09, 2009-10, and 2010-11

Program Costs	Amount Per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services	$18,033,266	$1,392,542	$16,640,724	B, C, D, G, H, J K, L
Non-Personal Services	8,997,845	393,892	8,613,953	A, B, E, F, I, J, K
Total Program Costs	**$27,031,111**	**$1,776,434**	**$25,254,677**	

Notes to Exhibit

The following Notes refer to the specific sections of SED's 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 Sunshine Developmental officials during the course of our audit.

A. Section I.4 - A less-than-arm's-length (LTAL) relationship must be disclosed in the notes to the audited financial statements.
B. Section II. Cost Principles - Costs must be reasonable, necessary, program-related, and sufficiently documented.
C. Section II.14 A (4a) - For any individual who is employed in any job title or combination of job titles by the entity operating the approved programs, compensation up to 1.0 FTE for that individual in total will be considered in the calculation of the portion of 1.0 FTE reimbursable in the tuition rates. Allocation of non-direct care compensation among various direct care job titles is not allowable.
D. Section II.14 A (4d) - Direct care student-to-staff ratios shall not exceed the approved staffing levels supported by SED's program approval letter. Any net excess of staff will not be included as part of reimbursable costs in the program's reconciliation tuition rate.
E. Section II.15 B - Costs associated with retainers for legal, accounting, or consulting services are not reimbursable unless the fee represents payment for actual documented reimbursable services rendered, provided the services are not for lobbying efforts.
F. Section II.55 B - All cell phone charges that are not properly documented will not be reimbursed.
G. Section III.1 A - 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.
H. Section III.1 B - Actual hours of service is the preferred statistical basis upon which to allocate salaries and fringe benefits for shared staff who work on multiple programs. Entities must maintain appropriate documentation reflecting the hours used in this allocation. Acceptable documentation may include payroll records or time studies. If hours of service cannot be calculated or a time study cannot be completed, then alternative methods that are equitable and conform to generally accepted accounting principles may be utilized. Documentation for all allocation methods (bases and percentages) must be retained for a minimum of seven years.
I. Section III.1 C (3) - Requests for proposals (RFP) or other bidding documentation must be kept on file by the entities operating the program. The entity will need to justify that the consultant hired was the most economical and/or appropriate available for a particular service.
J. Section III.1 M (1) - Any expenditures that cannot be charged directly to a specific program must be allocated across all programs and/or entities benefited by the expenditure.
K. Section III.1 M (3) - For CFR filers (except Office of Children and Family Services Residential Facilities), agency administration costs shall be allocated to all programs operated by the

entity based on the ratio value method of allocation.

L. Section IV.2 F - All 1:1 aide costs (salaries, fringe benefits of the aide, and allocated direct and indirect costs) should be reported in one separate cost center on the providers' financial reports.

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
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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-64) of the State Education Department: Sunshine Developmental 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 Sunshine Developmental 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 this report and, considering any previous SED disallowances, adjust Sunshine Developmental's Consolidated Fiscal Report (CFRs) and tuition rates as appropriate.

We agree with this recommendation. The Department 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.

Recommendation 2: Work with Sunshine Developmental officials to help ensure that only eligible costs are included on their CFRs.

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the Sunshine Developmental 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, 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 - Sunshine Developmental School

SUNSHINE DEVELOPMENTAL SCHOOL

December 18, 2014

Mr. Frank Patone, CPA
Audit Director
Division of State Government Accountability
NYS Office of State Comptroller
123 Williams Street, 21st Floor
New York, NY 10038

Dear Mr. Patone:

Thank you for the high level of professionalism and diligence from you and your staff during this audit process.

We have reviewed the OSC's audit report of the Sunshine Consolidated Fiscal Report (CFR) for the fiscal years ending 6/30/2009, 06/30/2010, and 06/30/2011, and respectfully submit our responses to the issues raised during your audit.

Excessive Executive Director Compensation

The organizational structure of the MetSchools network of schools was fairly large, covering 10 operating entities and 3 holding companies. These entities varied in size and complexity, with Sunshine being one of the largest, and clearly the most complex of the entities. As a result, the oversight of Sunshine required a greater level of oversight and time commitment than the other entities. The compensation of Sunshine's Executive Director was split between Sunshine (52%) and other entities in the MetSchools' network.

In addition to Sunshine's Executive Director, there are two other executive staff that have primary responsibilities for other MetSchools entities. MetSchools assigns its executive staff to specific schools to create efficiency and consistency to ensure that the children served by each school receive the highest level of safety, care, competency and compliance, and respect. We understand that records are required to be maintained, and, per your advice, we have modified our systems to incorporate more detailed time records from executive staff. To determine the level of allowable salary for the executive director, the OSC disallowed salaries based upon 2 premises:

1) An executive director is limited to a median salary as published by SED for all activities performed by that executive director, regardless as to whether or not those efforts are charged to SED; and

2) As time records do not exist outlining where the executive director focused his time, the executive director should be allocated to all the MetSchools' schools utilizing the ratio value method.

This allocation methodology does not consider the work performed by the other two executive staff members employed by MetSchools. As a result, the OSC allowed salary and fringes of $52,929- 2009, $55,185 – 2010, and $91,840 – 2011, compared to salaries and related fringes of $160,381 – 2009, $159,094 – 2010, and $146,161 – 2011, charged to the CFR. The amount charged by SDS for its Executive Director is below the overall median average salary for an executive director. The amount allowed by SED is extremely low for an entity providing in

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Comment
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* See State Comptroller's Comments, Page 21

excess of $13 million a year in services. The School believes based upon the discussion above, the full amount of the disallowance should be reinstated.

1:1 Aides
In performing its audit, the OSC disallowed costs that pertained to 1:1 aides in 2 ways:

1) There were certain staff members who functioned as 1:1 aides for a portion of the day, and for the balance of the day they were functioning as floaters; and

2) There were certain staff members who functioned as a 1:1 aide for part of the year and in a different capacity (such as a classroom teacher, assistant teacher, or floater) for the balance of the year.

Sunshine is an extremely large 4410 program with over 30 classrooms. Over the course of the day (Sunshine operates from 8 am to 4:30 pm), there are many things that occur that require additional staff support such as escorting children to buses or to therapy, setting-up classrooms, etc. In addition, there are many reasons why someone may need to push into a classroom such as staff illness, parent meetings/discussions, meetings with related service providers, child behavioral issues, lunch coverage, etc. As a result, it is prudent to have extra staff on hand to fulfill many of these duties. With over 30 classrooms, the dynamic nature of the needs within the school, and five approved programs operating with four or more daily arrival/dismissal times, and the normal reality of staff absences, it is impractical to track the classroom coverage activities of the floaters utilized by Sunshine. As a result, Sunshine allocated its floaters based upon student FTE's, which is a reasonable allocation methodology.

Furthermore, utilizing these 1:1 aides after the child they are responsible for leaves, is a much more practical and programmatically sound approach than dismissing the aide and hiring a different staff person for the balance of the day. Not only does it allow the program to work with individuals that the staff and children are already familiar with, it also saves on unemployment insurance, HR and training, and other administrative functionality. Sunshine reported on its CFR sufficient staff in its 1:1 aide program to meet the IEP mandates of all the children receiving 1:1 aide services. The OSC's disallowance of $460,632 pushes significantly more hours and dollars to the 1:1 aide program than is necessary, practical, and logical to run the program. Based upon the above, the School believes the disallowed costs should be reinstated. This disallowance also impacts the ratio value calculation used to allocate various costs from MetSchools to Sunshine. Most importantly, as noted above, the use of the methodology suggested by the OSC would result in greater 1:1 costs which we do not view as necessary for the proper functioning of our program.

* Comment 2

Allocated Staff
Sunshine was part of a network of schools which received administrative support from a related entity, MetSchools. MetSchools allocated various administrative staff salaries including HR support, the organizational CFO, IT Support, etc. These individuals were originally allocated by Sunshine based upon staff headcount across the MetSchools' network of schools. The OSC modified the allocation methodology to utilize the ratio value method of allocating these costs. In addition, 50% of the CFO's salary was allocated to Sunshine, as Sunshine is the most complex school in the MetSchools system.

Sunshine requires a higher degree of expense monitoring, the preparation and oversight of a CFR, a stand-alone audit and pension audit, the need to respond to desk audit questions, etc. Even though the CFO represented that he spent 50% of his time on Sunshine activities, he did not maintain contemporaneous time records or document the results of a time study. Even so, the allocation of costs from MetSchools to Sunshine has been shared and reviewed with SED's rate setting unit on numerous occasions, without disallowances due to the allocation methodology or the CFO's compensation. The change in allocation methodology and reduction in CFO charges resulted in a disallowance by the OSC of $168,444. The School believes that this amount should be reinstated. Finally, $62,849 was disallowed by the OSC for allocated compensation that was already adjusted by SED in establishing Sunshine's rates for 2009.

* Comment 3

Reconciliation Differences
Sunshine had personal services in excess of $5 million per year. Throughout the year, transactions were posted to various accounts within Sunshine's general ledger. At year end, to facilitate the preparation of Sunshine's consolidated fiscal report, Sunshine's management develops a detailed analysis of all of Sunshine's employees and the salaries paid to them. For 2009 and 2010, there were small differences between the general ledger and the detailed schedule amounting to $17,256 due to potential mis-postings in the general ledger. As these represented less than 1/100th of a percent (<.01%) of the total payroll, Sunshine's management, did not investigate these small differences. These amounts were disallowed by the OSC upon audit. It should be noted that for 2011, the detailed schedule was in excess of the general ledger by approximately $2,600 and this amount was excluded by Sunshine from its 2011 CFR. The School believes these amounts should be reinstated.

* Comment 4

Off-Site Salaries
As previously outlined, Sunshine represented 1 of 10 schools in the MetSchools' network. Sunshine had business relationships with several of the other entities:

1) Sunshine collaborated with Sunshine, LLC, a day care provider, to create an integrated learning environment for its children. There are certain shared staff used by both providers. Sunshine did not maintain detailed time records for some of these staff, and upon the OSC audit realized that approximately $32,470 of salaries should be allocated to Sunshine, LLC that were charged to the School. In addition, the OSC disallowed an additional $43,453 for an employee who worked almost exclusively for the School and was off on days the School was closed and the day care was open. Once again, during the period of audit, the employee did not adequately document her time, however, a time study was performed in a subsequent period to substantiate how she spent her time. As this study was not contemporaneous, the study was disallowed.

2) Similarly, Sunshine operated collaborative classrooms out of the Williamsburg Northside Preschool ("WNP") in Brooklyn. Sunshine shared certain supervisory employees that were allocated based upon staff/classes they oversaw. The OSC allocated these staff over all the classrooms at WNP as opposed to the classes that these individuals had specific responsibility for. This included a supervisor who filled in as a classroom teacher for several months while a vacancy existed. The disallowances in this area aggregated $138,193.

3) Sunshine also had an arrangement with Vernon Avenue Children School ("VACS"). Certain supervisors for 2011 were disallowed in the amount of $75,170 as the OSC stated their efforts were duplicative. Sunshine did not have any other staff performing those services at the VACS site.

4) Sunshine had nearly 200 employees. Sunshine had a payroll clerk who processed the Payroll. While Sunshine used an outside payroll service, the School needs to have an employee verify employees worked, tracks time off, enters hours, salary, and employees into the payroll system, etc. This employee covers for the MetSchools payroll clerk when necessary and the MetSchools payroll clerk covers for this employee when necessary. This employee was 100% charged to Sunshine. The OSC limited the salary for this employee to the ratio value allocation, resulting in a disallowance of $146,910 during the 3 years under audit. Sunshine does not believe it is unreasonable to have a payroll clerk for 200 employees.

* Comment 5

We believe that all but $32,470 of the costs outlined in 1 to 4 above should be reinstated.

Retainer/Lobbying Fees
The OSC disallowed $157,871 of lobbying and retainer costs. While these fees are valid expenses of the School, we understand that they are not permissible under SED guidelines. The School agrees with The OSC's finding.

Sunshine Developmental School • 91-10 146th Street • Jamaica, NY 11435

Software Costs
The School paid for certain software development costs to track student information. The School provided the OSC auditors with bid information and copies of checks paying for the services. In addition, the School made the software available for the auditors to review. As the School could not provide more detail support for the software, such as development specifications, detailed invoices showing hours of time to develop, etc, the OSC disallowed $53,732 of expense. The School believes that this amount should be reinstated.

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Comment
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MetSchools' Professional Fees
MetSchools' charged certain bookkeeping charges to Sunshine, as Sunshine requires a greater level of effort than the other Schools in the MetSchools network. The OSC limited the charge of these bookkeeping services to the ratio value, disallowing $51,975 of such services. The School agrees with the OSC's finding.

MetSchools' Office Expense
MetSchools charged certain office expenses to Sunshine utilizing the ratio of Sunshine employees to total employees in the MetSchools network. While the OSC agreed with the expenses charged, they limited the allocation of costs to the ratio value method. The School believes its methodology was appropriate, and requests a reinstatement of the $23,371 of disallowed costs.

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Comment
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Cell Phones
The State Education Department's rules are somewhat confusing when it comes to cell phones, and during the period under audit, SED changed its reimbursable cost manual and then changed the rules back. Sunshine works out of collaborative offices, staff are on the road (including executive staff), and it is important that they have cell phones available. In addition, Sunshine's plan provided for a flat fee for usage, so even if the users had made some level of personal calls, it would not have resulted in additional cost to Sunshine. The OSC disallowed $14,674 over the 3 years audited. The School believes that this amount should be reinstated.

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Comment
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MetSchools' Rent
MetSchools allocated rent to the various schools within its network based upon staff headcount. Upon review, the OSC agreed with the amount of chargeable rent, but asserted that the ratio value is a more appropriate way to allocate these costs. This resulted in a disallowance of $82,267 over the 3 years under audit. The School believes that this amount should be reinstated.

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Comment
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Again, we thank you for the time you and your team spent with us throughout the field work period as well as during the post-audit analysis. As always, please feel free to contact us if you have further questions, comments, or concerns.

Sincerely,

Brian G. Koffler
Co-Executive Director
Sunshine Developmental School, Inc.

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State Comptroller's Comments

1. We analyzed the work effort of all three Executive staff to assess the eligibility of their compensation that was charged to the Programs. Our recommended disallowance of the Executive compensation is based on the percentage of such compensation charged to the audited Programs (according to the ratio value method, as prescribed by the Reimbursable Cost Manual [or Manual]). The median compensation limits were adjusted by the Executives' percentages (allocations) of effort among the respective Programs.
2. The Manual is clear on the eligibility of compensation costs for 1:1 aides. Specifically, such compensation is not an eligible expense for the Programs audited.
3. As noted by Sunshine Developmental officials, the auditors applied the allocation methodology (the ratio value method) prescribed by SED when detailed time and/or work effort records do not exist. Also, SED takes all of its prior disallowances, if any, into consideration when assessing OSC's recommended disallowances.
4. Unsupported expenses should not be claimed on the CFR. Also, we revised our report to note that the ineligible charge was an unreconciled payroll item.
5. As noted in the report, in the absence of detailed time records or work effort documents, the ratio value method should be used to allocate employee compensation costs among the various programs they serve. Further, we in fact allowed a portion of the payroll clerk's compensation because she provided services which benefited all Sunshine Developmental's affiliates.
6. Because Sunshine Developmental did not maintain the detailed documents necessary to support this charge, it was not eligible for reimbursement. Also, we revised the report to acknowledge the existence of the vendor.
7. As appropriate under the circumstances, we applied the ratio value method, as prescribed by the Manual, to allocate the costs in question. As such, we did not amend the amount of the proposed disallowance.
8. As noted in our report, Sunshine Developmental did not provide adequate documentation to support these Program charges (e.g., who the phones were assigned to, the respective needs for the phones). Consequently, the costs in question should not have been claimed on the CFR.