New York State Comptroller
THOMAS P. DiNAPOLI

Auditory Oral Learning Center – Compliance With the Reimbursable Cost Manual

State Education Department

Report 2016-S-94 | **December 2019**

Spotlight on Education

Audit Highlights

Objective

To determine whether the costs reported by the Auditory Oral Learning Center (AOLC) on its Consolidated Fiscal Report (CFR) were reasonable, necessary, directly related to the special education program, and sufficiently documented, pursuant to the State Education Department's (SED) Reimbursable Cost Manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual. Our audit covered the fiscal year ended June 30, 2014.

About the Program

AOLC is a New York City-based not-for-profit organization authorized by SED to provide Preschool Special Education Itinerant Teacher services, Preschool Special Class full day, and Preschool Integrated Special Class to children with disabilities who are between the ages of three and five years. For purposes of this report, these programs are collectively referred to as the SED cost-based programs. AOLC has an Executive Director (ED), who is responsible for the overall general administration of AOLC. The ED is appointed by, and under the general direction of, the governing board of the agency.

Based in Brooklyn, AOLC provides these SED programs to children in 21 different school districts in four counties in New York City excluding the Bronx. During the fiscal year ended June 30, 2014, AOLC reported serving 117 children. AOLC is reimbursed for the preschool special education services through rates established by SED. The reimbursement rates are based on the financial information that AOLC reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with the RCM's requirements and be reasonable, necessary, directly related to the special education program, and sufficiently documented. For the fiscal year ended June 30, 2014, AOLC reported approximately $9.09 million in reimbursable costs for the audited cost-based programs.

In addition to the cost-based preschool special education programs, AOLC operates two other SED programs: Evaluations and 1:1 Aides. However, payments for services under these other programs are based on fixed fees, as opposed to the cost-based rates established through CFR-reported financial information.

Key Findings

For the fiscal year ended June 30, 2014, we identified $1,025,977 in costs that AOLC reported on its CFR that did not compy with the RCM and recommend such costs be disallowed. Among the ineligible costs identified were:

- $334,774 in employee compensation that was not properly supported by time and attendance records.
- $691,203 in other than personal service costs and in depreciation that was not supported by appropriate substantiating documentation.

Key Recommendations

To SED:

- Review the recommended disallowances resulting from our audit and, if warranted, make the appropriate adjustments to the costs reported on AOLC's CFRs and to AOLC's tuition reimbursement rates.
- Work with AOLC officials to help ensure their compliance with SED's reimbursement requirements.

To AOLC:

- Ensure that costs reported on future CFRs fully comply with SED's requirements.

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

December 31, 2019

Ms. Shannon Tahoe
Interim Commissioner
State Education Department
State Education Building – Room 125
89 Washington Avenue
Albany, NY 12234

Mr. Sam Bravmann
Executive Director
Auditory Oral Learning Center
3321 Avenue M
Brooklyn, NY 11210

Dear Ms. Tahoe and Mr. Bravmann:

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 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 expenses submitted by Auditory Oral Learning Center to the State Education Department for the purposes of establishing 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 report, please feel free to contact us.

Respectfully submitted,

Division of State Government Accountability

Contents

Glossary of Terms

Term	Description	Identifier
AOLC	Auditory Oral Learning Center	*Service Provider*
CFR	Consolidated Fiscal Report	*Key Term*
Claiming Manual	Consolidated Fiscal Reporting and Claiming Manual	*Key Term*
ED	Executive Director	*Key Term*
DOE	New York City Department of Education	*Agency*
OTPS	Other than personal service	*Key Term*
RCM	Reimbursable Cost Manual	*Key Term*
SED	State Education Department	*Auditee*
SEIT	Preschool Special Education Itinerant Teacher	*Key Term*

Background

Auditory Oral Learning Center (AOLC) is a New York City-based not-for-profit organization authorized by the State Education Department (SED) to provide Preschool Special Education Itinerant Teacher (SEIT) services, Preschool Special Class full day, and Preschool Integrated Special Class to children with disabilities who are between the ages of three and five years. For purposes of this report, these programs are collectively referred to as the SED cost-based programs. AOLC has an Executive Director (ED), who is responsible for the overall general administration of AOLC. The ED is appointed by, and under the general direction of, the governing board of the agency. Based in Brooklyn, AOLC provides services to children in 21 different school districts in four counties in New York City excluding the Bronx. During the fiscal year ended June 30, 2014, AOLC reported serving 117 children.

The New York City Department of Education (DOE) refers preschool students to AOLC based on clinical evaluations and pays for AOLC's services using rates established by SED. The State, in turn, reimburses the DOE 59.5 percent of the reimbursement rates it pays to AOLC. These rates are based on the financial information that AOLC reports to SED on its annual Consolidated Fiscal Report (CFR). To qualify for reimbursement, costs reported on the CFR must comply with the criteria set forth in SED's Reimbursable Cost Manual (RCM). In addition, AOLC must meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (Claiming Manual). Reimbursable costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented.

Section 4410-c of the Education Law provides that the State Comptroller shall audit the expenses reported to SED by special education service providers for preschool children with disabilities. For the fiscal year ended June 30, 2014, AOLC reported approximately $9.09 million in reimbursable costs for the audited cost-based programs.

In addition to the cost-based preschool special education programs, AOLC operates two other SED-approved programs: Evaluations and 1:1 Aides. Payments for services under these programs are based on fixed fees, as opposed to the cost-based rates on the CFR.

Audit Findings and Recommendations

According to the RCM, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. For the fiscal year ended June 30, 2014, we identified $1,025,977 in reported costs that did not comply with the RCM's requirements and recommend such costs be disallowed. The ineligible costs included $334,774 in personal service costs and $691,203 in other than personal service (OTPS) costs (see Exhibit at the end of the report).

Personal Service Costs

According to the RCM, personal service costs, which include all salaries and fringe benefits paid or accrued to employees on the agency'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). All claimed costs must comply with the applicable provisions of the RCM. For the fiscal year ended June 30, 2014, AOLC reported $7,485,529 in reimbursable personal service costs. We identified $334,774 that did not comply with the RCM for reimbursement, as discussed next.

Compensation Costs

The RCM states that costs will not be reimbursable on field audit without appropriate written documentation of such costs. According to the RCM, compensation costs must be based on approved, documented payrolls, 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. The RCM requires related parties to meet higher standards of accountability than unrelated parties. For the fiscal year ended June 30, 2014, we reviewed time records and payroll register entries for 42 employees whose salaries totaled $1,908,457 in personal service expenses for the SED cost-based programs. For 32 direct care employees and 6 administrative employees, we determined there was insufficient documentation to support claimed compensation costs, and recommend a disallowance of $310,491.

For direct care employees, this included:

- Twenty-six employees who, on 862 occasions, swiped in at the beginning of the workday but did not swipe out at day's end. We requested documents to support the work performed by these employees. AOLC provided payroll registers that support the days, but not the days worked, the hours worked each day, or the work performed.

- Two employees were required to file semi-monthly time records by either using the facility's hand scanner or maintaining an electronic spreadsheet, in a format that lacked the school letterhead and spaces for relevant signatures and dates. The time sheets provided were not dated. AOLC officials provided various possible explanations as to why these employees could not use the time clock, including that the system was inoperable throughout our audit period, but there was no documentation to support this.
- Another two employees were required to file semi-monthly time sheets; however, the school provided no time sheets for either, stating their time records could not be located.
- SEIT employees do not swipe in/out as they work at locations outside of the school building; instead, they complete monthly manual time sheets (known as invoices). We did not receive any time records for two of nine SEIT employees sampled.

We recommend a disallowance of $223,266 due to insufficient documentation.

For six administrative employees, the time records did not support the hours claimed. For example, for two of the employees, who are also related parties to the ED and hold management positions, one did not swipe out on 47 of 241 days reviewed and the other swiped out on only 1 of the 240 days reviewed. The time records provided for the other 239 days where the employee manually signed out were not dated; thus, we have no assurance as to when they were prepared.

In response to the preliminary findings, AOLC submitted additional documentation to support the work done by the Chief Financial Officer. The documents provided did not account for the number of hours reported as worked. The RCM requires additional standards for the time and attendance records as follows: "They must reflect contemporaneous time records of the actual activity of each employee. They must account for the total activity for which each employee is compensated." We recommend a disallowance of $87,226 due to insufficent documentation for agency administrative personnel.

AOLC did not provide its supervisory staff or timekeeper/bookkeeper with policies or procedures regarding time and attendance. For example, while the ED indicated it was acceptable for staff to manually correct their time sheets (with the approval of their supervisor), the bookkeeper advised us that she does not record any of these adjustments prior to sending the information for the time worked to the vendor for processing. As a result, most manual entries made on time sheets are not dated and are not reflected in the time shown on the actual payroll registers.

Non-Mandated Fringe Benefits

We found four employees who were provided health insurance or dental benefits but did not qualify based on AOLC's requirement of 40 hours of work per pay period. These benefits cost AOLC $17,332. We also identified one employee who was enrolled in a premium benefit plan that cost $7,676 more per year than the standard plan. As this benefit was not available to all employees and did not meet the RCM's requirement that fringe benefits provided to one group of employees be proportionately similar to those received by other groups of employees, we recommend that this additional expense be disallowed. AOLC also claimed $1,077 for the cost of record-keeping and administrative services for its pension plan that was not properly documented. In total, AOLC claimed $26,085 in costs for employees not eligible for the fringe benefit or for which there was no supporting documentation. After applying the ratio value, we recommend a disallowance of $24,282.

Other Than Personal Service Costs

Unallowable, Unsupported, or Non-Program-Related Expenses

During fiscal year 2013-14, AOLC spent $1,604,867 in OTPS costs. We selected an initial judgmental sample of 36 OTPS invoices valued at $86,022 for review. For three categories of expenses, we expanded the sample by $140,753 to include all invoices within the category. We obtained and reviewed the invoices, purchase orders, packing slips, and other related documentation. We identified $125,189 that did not comply with the RCM's reimbursement requirements. Among the items we recommend for disallowance are the following:

- We reviewed documentation for $144,128 paid to a vendor who cleaned the school building. We asked for supporting documentation, such as the request for proposal, proposal, contract, and/or invoices for review. The original invoices provided did not specify what portions of the building were cleaned (e.g., floors or rooms). In response, AOLC provided only a generic listing of the areas to be cleaned. Moreover, the documentation did not specify a date, hours provided, or the fee per hour (to support the invoice). The RCM states, in part, "Adequate documentation includes, but is not limited to, the consultant's resume, a written contract which includes the nature of the services to be provided, and the charge per day and service dates. All payments must be supported by itemized invoices which 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." Therefore, we recommend a disallowance of $103,552.

- We also reviewed the documentation for $4,373 paid to a local supermarket for "snacks" purchased for fiscal year 2013-14. We examined the receipts for 11 months and found that 77 were illegible or did not indicate which program it was charged to. We reviewed the legible receipts line by line and determined that, while some of the items could have been program related, others were not. Based on our review, we recommend a disallowance of $2,554.

- Additionally, we obtained and reviewed the invoices from vendors for various items purchased by AOLC that were not supported by documentation or that did not appear to be directly related to the program or be reasonable in terms of the volume. For example, a vendor was paid $10,446 for printing booklets, calendars, postcards, and t-shirts. We questioned the purchase because it included items that were not directly related to the cost-based programs, such as 2,500 "Strivright" booklets, 1,500 calendars printed in August 2013 (the student population was 117 for the year), 6,000 postcards (with no explanation as to why they were needed or how they were used), and 450 t-shirts purchased in June 2014. Based on the student population, we recommend disallowing 330 t-shirts and 1,260 calendars. In addition, AOLC purchased 500 promotional navy tote bags with the name "Strivright" printed on them. AOLC officials stated that the tote bags were purchased for students to carry schoolbooks; however, we question the quantity purchased due to the size of the student population. We recommend a disallowance of $11,883.

- A total of $2,525 was paid to a vendor for the maintenance of two large aquariums located on the first-floor reception area and on the fifth floor in the executive management offices area. School personnel advised that the aquariums have a calming effect on students. However, students are not allowed above the third floor. The fifth floor is an administrative floor. Accordingly, we recommend a disallowance of $907 for the maintenance cost of the aquarium on the fifth floor, where the ED and another official have their offices, because it was not necessary, program related, or reasonable.

- We also requested the files for a sample of 27 payments to vendors for other OTPS costs. AOLC provided a box of folders about its vendors, but there were no folders for seven. In the absence of any documents to support the payments claimed on the CFR, we recommend a disallowance of $2,040.

Equipment and Property Expenses

Building Depreciation

The Claiming Manual provides guidelines for recording and depreciating buildings. AOLC claimed on the CFR that it purchased the building and made improvements to it, and claimed costs for depreciation, additions to building depreciation, mortgage expense, and interest on capital indebtedness. The claimed amounts were based on total costs of $11.9 million for the building, as reported by the provider. However, the ED provided documentation that only supports the cost of the initial purchase of the building, which was $5.8 million.

We requested documentation to support the original purchase of the building and the rationale for the useful life of the building and all other assets used, to determine the depreciation expense for the year ended June 30, 2014. Specifically, we requested documents related to the cost for the initial purchase of the building, any initial and subsequent improvements to the building, and interest on capital indebtedness claimed in 2013-14.

The RCM states, “Records for buildings and land owned by the entity and used by the program must describe the buildings and land owned. Records must include a copy of the purchase agreement, deed, any mortgages and the amortization schedule for such mortgages. Records must include the allocable portion of space in each building used by or for the benefit of each program (education and non-education) and for the purposes of program administration and agency administration. All related information must be retained as long as the facility is used by an approved education program even if this period exceeds seven years.”

AOLC did not provide documents to support $6.1 million of the purchase price and construction costs. Therefore, we recommend a disallowance of $566,014 charged to the SED cost-based programs related to the building depreciation, additions to building depreciation, mortgage expense, and interest on capital indebtedness claimed for the fiscal year ended June 30, 2014.

Insufficiently Documented Expenses

According to the RCM, assets such as furniture and small tools purchased in a single fiscal year and totaling $5,000 or more should be treated as a single-unit purchase, with the use of the straight-line method of computing depreciation and salvage value. In addition, the Claiming Manual requires the service provider to maintain depreciation schedules that include the following minimum information: description of asset, date of acquisition, cost at acquisition, state/federal funding for items, salvage value, depreciation method, useful life used for depreciation purposes, annual depreciation amount, and accumulated depreciation.

AOLC provided a depreciation schedule; however, it was not as detailed as required as it did not list individual assets, their cost, or date of acquisition. Instead, it summarized all assets of a particular type that were placed in service in a particular fiscal year.

In the absence of a depreciation schedule that included the information required by the Claiming Manual, on April 4, 2017, we requested a complete list of equipment, additions to the building, furniture, and fixtures for the fiscal year 2013-14. We also requested the ED include the following information for each item: description of asset, date of acquisition, cost at acquisition, state/federal funding for items, salvage value, depreciation method, and useful life used for depreciation purposes. These documents should have been prepared and available when the CFR was filed with SED on December 1, 2014. The information was not provided despite seven follow-up requests to the ED from April to September 2017. As of the closing conference on February 20, 2018, we had not received the list of equipment and related information.

Other Matters

Allocation of Space

AOLC allocated its building depreciation expense for the year ended June 30, 2014 based on square footage, and provided a summary “Program Site Square Footage” schedule that shows a total of 21,000 square feet allocated to the SED and other programs, as presented in the following table.

Program	Program Code	Square Feet
Preschool Special Education	9100	11,354
Preschool Special Education Itinerant Teacher	9135	1,535
Preschool Integrated Special Education	9160	2,199
Preschool Evaluations	9190	417
Agency Administration	N/A	5,495
Total		**21,000**

However, we noted during our observation and inquiry that most of the space in the sub-cellar was not in use during fiscal year 2013-14, with the exception of the file room, which measured 494 square feet. As a result, AOLC should not have claimed the entire space, which included the depreciation expense for the unused space.

AOLC also did not produce support for its use of 25 years as the useful life for the building. The reference for the useful life states that 25 years applies to masonry buildings with wood/metal frames and prefabricated and portable buildings, which the AOLC school building is not. Usage of the 25-year useful life resulted in higher depreciation expense charges in the claim year than a 40-year life would have. Accordingly, AOLC should use the 40-year useful life when calculating costs for this building. Using the 40-year useful life, the depreciation for the original building and related costs would be 2.5 percent; however, with a 25-year useful life, the rate is 4 percent. Based on the value of approximately $11.5 million, AOLC claimed $478,289 per year; however, if it had used a 40-year life, the claim would have been $298,931 – a difference of $179,358 per year. AOLC's use of the 25-year useful life would also have impacted other school years (2011-12, 2012-13) when AOLC claimed the depreciation expense. We recommend SED review the depreciation expense claimed in the two fiscal years preceding the year we audited and adjust the amounts claimed.

Competitive Bidding

As stated in the RCM, "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." In addition, "All contractual agreements (e.g., leases) must be in writing, signed and dated. When applicable, competitive bidding practices should be used in conformance with the Purchasing Handbook." According to SED's purchase handbook, competitive bidding is required for a procurement that exceeds $35,000.

As noted previously, AOLC paid $144,128 during the 2013-14 fiscal year to a cleaning company. The ED did not follow the proper competitive bidding process, based on the records provided, to support the selection. AOLC had two bidders for the contract. However, the second bidder informed AOLC that it does not perform cleaning services and requires staff to be under AOLC's supervision. Thus, the second business' bid was not responsive. As a result, AOLC did not adhere to SED purchase requirements and there is less assurance it obtained the services at the best price.

Recommendations

To SED:

1. Review the recommended disallowances resulting from our audit and, if warranted, make the appropriate adjustments to AOLC's CFRs and to AOLC's tuition reimbursement rates.
2. Work with AOLC officials to help ensure their compliance with SED's reimbursement requirements.

To AOLC:

3. Ensure that costs reported on future 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 AOLC on its CFR were reasonable, necessary, directly related to the special education program, and sufficiently documented, pursuant to SED's RCM and the Claiming Manual. Our audit covered the fiscal year ended June 30, 2014.

To accomplish our objective, we reviewed the RCM, the Claiming Manual, AOLC's CFR, and relevant financial records for the audit period. We also reviewed AOLC's policies and procedures manuals. We also interviewed AOLC officials and staff to obtain an understanding of their financial and business practices. In addition, we assessed 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, such as consultants, non-mandatory fringe benefits, and time and attendance. Depreciation expenses were reviewed because they were high risk based on the calculations and the high dollar amount. Our sample was 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. Also, our review of AOLC's internal controls focused on the controls over the CFR preparation process.

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. 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 objective. We believe that the evidence obtained during our audit provides a reasonable basis for our findings and conclusions based on our audit objective.

As is our practice, we notified AOLC officials at the outset of the audit that we would be requesting a representation letter in which AOLC management provides assurances, to the best of their knowledge, concerning the relevance, accuracy, and competence of the evidence provided to the auditors during the course of the audit. The representation letter is intended to confirm oral representations made to the auditors and to reduce the likelihood of misunderstandings. In this letter, authority officials assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors. Authority officials further affirm that either the authority has complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited, or that any exceptions have been disclosed to the auditors. However, in the representation letter we originally sent in connection with this audit, AOLC deleted text documenting the fact that the auditors were limited to a conference room on the first floor and did not have access to records and staff. As a result, we lack assurance from authority officials that all relevant information was provided to us during the audit.

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.

Reporting Requirements

We provided a draft copy of this report to AOLC and SED officials for their review and formal comment. Their comments were considered in preparing this final report and are included in their entirety at the end of the report.

In their response, SED officials agreed with our recommendations and indicated that they will take steps to address them. However, in their response, AOLC officials disagreed with most of the recommended disallowances because, in their opinion, they were in compliance with the RCM and provided sufficient documentation for all the personal service and OTPS costs reviewed by the auditors. They added that all the costs incurred were for the benefit of the children who attend the school. In addition, AOLC officials stated they were not granted an opportunity to review detailed worksheets supporting the disallowances. Our responses to certain AOLC comments are included in the report's State Comptroller's Comments.

Within 180 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the State Education Department 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.

Exhibit

Auditory Oral Learning Center
Summary of Submitted and Disallowed Program Costs
for the 2013-14 Fiscal Year

Program Costs	Amount per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services				
Direct Care	$6,972,299	$234,831	$6,737,468	B-F
Agency Administration	513,230	99,943	413,287	A-C, E, F
Total Personal Services	**$7,485,529**	**$334,774**	**$7,150,755**	
Other Than Personal Services				
Direct Care	$1,189,100	$552,452	$636,648	B, D, F-H
Agency Administration	415,767	138,751	277,016	B, F, G
Total Other Than Personal Services	**$1,604,867**	**$691,203**	**$913,664**	
Total Program Costs	**$9,090,396**	**$1,025,977**	**$8,064,419**	

Notes to Exhibit

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

A. RCM Section II.13.B.2.(c) – Cost for reimbursement of fringe benefit expenses shall be subject to the following principles: Benefits including pensions, life insurance, and Tax Sheltered Annuities (TSAs) for individual employees or officers/directors are proportionately similar to those received by other classes or groups of employees.

B. RCM Section II – Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. Such reimbursable costs will be included in the calculation of tuition rates up to any limits or cost parameters approved annually in the rate setting methodology.

C. RCM 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.

D. RCM Section III.1.M.2 – Entities operating programs must use allocation methods that are fair and reasonable, as determined by the Commissioner's fiscal representatives. Such allocation methods, as well as the statistical basis used to calculate allocation percentages, must be documented and retained for each fiscal year for review upon audit for a minimum of seven years. Allocation percentages should be reviewed on an annual basis and adjusted as necessary.

E. RCM Section III.1.B – Actual hours of service are 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.

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

G. RCM Section III.1.K – Records for buildings and land owned by the entity and used by the program must describe the buildings and land owned. Records must include a copy of the purchase agreement, deed, any mortgages, and the amortization schedule for such mortgages. Records must include the allocable portion of space in each building used by or for the benefit of each program (education and non-education) and for the purposes of program administration and agency administration. All related information must be retained as long as the facility is used by an approved education program, even if this period exceeds seven years.

H. RCM Section II.17.A.2 – This Depreciation/Amortization section references Claiming Manual Appendix O – Guidelines for Depreciation and Amortization, which states in part: Depreciation on assets that are shared among programs/sites or among program/sites and administration should be allocated on a reasonable basis. Documentation for the allocation basis must be available upon request. Refer to Appendices I (Agency Administration) and J (Allocating Expenses for Shared Program/Site).

The “straight line method” of depreciation must be used for all classes of assets funded by the State agencies. Use of the one-month, six-month, or full-year convention is acceptable. The useful life of depreciable assets shall be the higher of the reported useful life or the useful life from the latest available edition of the Estimated Useful Lives of Depreciable Hospital Assets. Documentation to support the use of alternative useful lives must be available upon request.

The Estimated Useful Lives of Depreciable Hospital Assets indicates that buildings are structures consisting of building shell, exterior walls, interior framings, walls, floors, and ceilings. The following building lives are mentioned:

- Masonry building, reinforced concrete frame — 40 years
- Masonry building, steel frame
  - Fire resistive — 40 years
  - Non-fire resistive — 30 years
- Masonry building, wood/metal frame — 25 years
- Prefabricated and portable building — 25 years
- Reinforced concrete building, common design — 40 years

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
F: 518.474-5392

July 1, 2019

Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of State Government Accountability
59 Maiden Lane, 21st Floor
New York, NY 10038

Dear Ms. Maldonado:

The following is the New York State Education Department's (SED) response to the draft audit report, 2016-S-94, Auditory Oral Learning Center (AOLC) - Compliance with the Reimbursable Cost Manual.

Recommendation 1:

"Review the recommended disallowances resulting from our audit and make the appropriate adjustments to the costs reported on AOLC's CFR and tuition reimbursement rates."

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.

Recommendation 2:

"Work with AOLC officials to help ensure their compliance with SED's reimbursement requirements."

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the AOLC 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 AOLC 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 James Kampf, Supervising Accountant, at (518) 474-3227.

Sincerely,

Sharon Cates-Williams

Sharon Cates-Williams

c: Phyllis Morris
Christopher Suriano
David Sears
Suzanne Bolling
Traci Coleman
Brian Zawistowski
James Kampf

Auditory Oral Learning Center

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July 19, 2019

Carmen Maldonado
Audit Director
Office of the State Comptroller
59 Maiden Lane, 21st Floor
New York, NY 10038

Re: Audit Report 2016-S-94

This letter is in response to your audit of Auditory Oral Learning Center ("AOLC") and the respective purported disallowances noted in your Audit Report. The responses contain the basic concepts and are significantly supported by documentation. We appreciate the opportunity to respond and look forward to collaborating with you in reconstructing and correcting the report, as appropriate.

Comment 1

AOLC has been successful in educating children with disabilities and has grown over the years based on requests from NYC and NYS to fill the classrooms. The positive and vibrant approaches continue to energize our program and maximize our impact on the students we serve. Our core values reverberate throughout the programs; compassion, care and optimism. We see the sparkle in every child and tirelessly work with them to elevate their education to their greatest potential.

Our services are extremely impactful to the young children being served as evidenced by an ongoing flow of letters and feedback we receive from the public. The staff morale is at its peak and the parents of students are overwhelmingly satisfied with our curriculum and programs. Uniquely, AOLC has implemented a method in bringing out the best in each and every child through its Auditory programs and is lucky to have very experienced and knowledgeable staff to carry out its approach each and every day of school.

AOLC built its programs based on the foundations set forth by its funders and oversight agencies. AOLC has lived with and operated in compliance with the RCM and has met its requirements for reimbursement of costs.

Comment 2

The results of the OSC's audit were disallowances of expenses that were used for furthering the programs and helping the children reach their educational goals.

AOLC was not granted the opportunity to review the detailed worksheets supporting the specific disallowances, nevertheless, we have responded to them based on our knowledge of our ongoing compliance with the RCM.

Comment 3

We are confident in our program, have been highly revered in the industry for our education and compliance, we have undergone many audits and continuously received raving reviews and results and know that these purported disallowances are just a view of the OSC yet do not break our healthy trend of compliance.

The responses set forth are accurate and we embrace the opportunity to discuss them with you.

Sincerely,

Sam Bravmann, Executive Director

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3321 Ave M, Brooklyn, NY 11210 • p: (718) 531-1800 • f: (718) 677-4889 • info@strivright.org • www.strivright.org

Auditory Oral School of NY

Success begins here

To whom this may concern:

Message sent to OSC team prior to issuance of final report:

We are requesting the supporting documents that lead to the numbers represented in the draft report. Presumably these documents are maintained on excel and calculate to the numbers reported in the draft report. Please send us those analyses. Please send us a correct final draft. We are in receipt of the draft report and realize several explicit errors that should be corrected before AOLC begins reviewing and responding to this final draft. This is so that your team will not be misrepresenting facts to the public at large or providing inconsistent information on your report. Here are some examples, yet not all inclusive:

- Representation letter was provided in March 2018 and AOLC mailed original back
- Page 2, 7 and page 19 provide different amounts of what AOLC reported as revenue
- Page 9 –
    - Top paragraph has fabricated information. Two employees are not required to complete semi-monthly time sheets and punch the time clock.
    - These employees have not developed the time sheets themselves
    - System was inoperable – the system was in fact operable yet not for these individuals' medical conditions which included a diagnosis letter regarding cancer and a pregnant woman where changes to hand size will prevent the fingerprints from being read.
    - 3rd paragraph- "Manually signed out not dated"- The sheet was dated, and the RCM requires only the Employee and Supervisor signoff- which are all there. 4th paragraph- The CFO did not make $87,225 but in fact $36k, as reported in the CFR and as OSC verified.
    - 5th paragraph-Reports writes - She does not record any of these adjustments… - She does this all the time
    - Page 10-1st paragraph- Employees did not have the minimum hours-Both employees who didn't reach the minimum hours had babies
    - Page 12 – 11.95 Million of support was provided, it included the closing costs etc., also, the complete IDA package was provided to the OSC by the IDA attorney (in response to OSC request), Wells Fargo bond costs which the audit team photocopied in our office
        - The above was provided with an extremely detailed excel schedule to help the team understand the full picture
    - Page 12/13 – The numbers don't add up –
        - $11.95m - 5.5m = 6.45m – the report indicates 6.1m
        - $566,014 does not seem to agree to the other figures
        - $479,589 – does not add up to any figures the report quotes that build up to it. There seems to be a simple calculation error
    - Page 14 – Sub-cellar – The audit team already agreed with AOLC on the 494 sq feet as well as the respective calculations as per the schedule provided to the auditors and a 2 hour meeting with the audit team to walk them through it demonstrating how it was appropriately depreciated; the remainder has not been depreciated.

Comment 4

Comment 5

Comment 6

Comment 7

Comment 8

Comment 9

Comment 10

Comment 11

Comment 12

Comment 13

Comment 14

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Please note, all references below to page and paragraph are in response to the version of the report that AOLC was provided.

Topic - Personal Services Time & Attendance (Page 8 Bottom Paragraph)

The OSC is recommending the disallowance of personnel costs, because the individuals in question did not electronically scan out each day.

Summary:
The costs are allowable for the following reasons:

1. The School maintained bi-monthly time sheets signed by the employee and supervisor
2. The time sheets agree to the payroll records
3. The time sheets were in accordance with the RCM
4. The time sheets were in accordance with the School's policies and procedures

Comment 15

RCM:
Section II of the Reimbursable Cost Manual (RCM) states that generally, cost will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and are sufficiently documented.

Section III General Requirements, Recordkeeping 1.A, states that compensation costs must be based on approved and 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.

Allowability

A. In reviewing the OSC auditors' findings, the OSC did not identify any instances where an employee was paid when his/her time record was not complete and approved by a supervisor. This supports that the controls put in place by AOLC are properly functioning.

B. Main Method for utilizing Time sheets to track employees time - Paper time sheets are not an 'Alternative Method' they have actually been used and relied upon for thousands of years, to support payment for services provided. Therefore, paper time sheets are considered reasonable, justifiable and represent an allowable cost to be included in the tuition rate for our school. The auditors themselves stated in our meeting that "for us pen and paper is the preferred method".

C. RCM allows any form of time sheets including paper - The RCM does not dictate how payroll records must be maintained; electronic, manual, or a combination of the two, it only states that such records are required to support the work performed by staff.

D. OSC chose to disallow the entire salaries as opposed to limiting the disallowances to their alleged specific issues. i.e. payroll time supported by paper time sheets. Disallowing in its entirety is overreaching the scope of the issue and simply just disallowing regular undisputed costs.

Comment 16

E. The OSC auditors created a formula for deducting additional time by counting a day and multiplying by 8 hours for Admin employees and 6.75 hours for Direct care staff. All employees are dedicated to the students and their peers and work additional hours. The formula of the OSC deducted time that is verified by complete electronic timesheets.

F. The spreadsheet used as the backup of the findings prepared by the OSC auditors verifies that the employees actually had every single hour reported on the CFR accounted for in the handpunch system and on their time sheets—no time can be deducted.

AOLC requires all staff to sign in and out each day. When an employee is unable to electronically sign-in, they are required to manually document their time on their time sheet. Some reasons may be due to an issue arising at bus-duty, a parent with a need to show the staff something relevant to their child's education or a meeting off-site, etc. The employee's supervisor is required to review the time sheet and sign-off signifying his/her approval. The payroll clerk receives all time sheets each payroll cycle verifies that all sheets either have an electronic or manual record of the time worked and that all time sheets have been reviewed and approved by a supervisor.

A total of 862 missed swipes are mentioned in the report that include both Direct care and Admin staff. Over 78% of the missing swipes were from the 5 key staff who dealt with issues related to bussing, children's needs, parent needs for their child's education, and people who needed to solve building and staff issues as they came up, no matter if it was early or late, and off site meetings. No request was made from AOLC to support the work performed by the staff whose time was being questioned. The work performed is supported by work logs completed on a daily basis that were available to the auditors during the entire duration of the audit.

Comment 17

Conclusion
The methods used by AOLC to track time are in complete agreement with the RCM and the Policies and Procedures of AOLC. Accordingly, it would not be ethical to disallow these costs and cause the school to potentially have to repay tuition funds to the State.

Topic - Staff Prepared Electronic Time Sheets (Page 9, 1st Paragraph)
There are no employees that must use both paper and the time clock. The AOLC Policies and Procedures and the RCM indicate that either one is acceptable. The OSC auditors identified 2 employees that tracked their time using paper as opposed to utilizing AOLC's hand scanned generated time sheet. AOLC has controls in place to provide assurances that no employee is paid for services that have not been performed. These controls include what was stated previously on this response, and that:

Comment 6

- Payroll must be and is supported by time sheets
- Time sheets must be and are approved by a supervisor. This includes electronic, manual, or a combination of the two. The RCM does not require "electronic" time records, and there are many programs/Schools that still use manual time records to track the time employees work. **Just because all records are not computerized doesn't make them unreliable or false**. That is the purpose of the supervisory review and sign-off.
- The payroll clerk will not pay an employee without a fully completed and approved time sheet. As a result, time records must be prepared and reviewed every two weeks, thus fulfilling the RCM's requirement that time sheets need to be prepared and approved on a contemporaneous basis.

Supervisor's oversight and appropriate protocols
The OSC auditors imply in their report that manual time sheets don't provide the appropriate ability for supervisors to timely substantiate the time an employee works.

Comment 9

Compliance with the Reimbursable Cost Manual
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A. Supervisors rely upon observation and inquiry to perform their oversight. This is a normal control and audit function that takes place in all businesses and is conventional and acceptable including in the OSCs office itself. Each supervisor has staff members that they oversee. The staff has specific responsibilities that need to be performed … teaching a class, providing therapy services, attending meetings. Therefore, if someone is absent or at a meeting then the school staff knows about it and it is easily verifiable, identified and acted upon by finance.

B. In addition to being in the building and interfacing with staff, supervisors are aware of absenteeism; absenteeism causes the supervisor more work, as rescheduling and substitutes need to be implemented if a person is not in. In cases where the supervisor is absent, inquiring of other administrators as to issues that arose and absenteeism is not unusual and provides reliable information. Supervisors know if the work was completed, through communication, progress in the assigned tasks, and the documented work.

C. The auditors are well aware of the fact that collusion is a mitigating factor in fraud risks. Accordingly, when a supervisor is verifying that an individual was in attendance the verification is done through inquiry to others to mitigate the fraud risk.

D. Supervisors typically know that day of an individual that is absent, however, the signatures on time sheets happen a few days later as is with all companies around the world where time sheets are not signed by the supervisor each and every day, rather at the end of a period. If there are several hundred or thousand employees and supervisors would be required to sign daily, this would require several FTEs just to sit and sign time sheets all day and all night long.

Why is the OSC Encouraging Discriminatory Practices?

Discriminatory practices are being encouraged by the OSC where they instruct the school to insist an employee can only use the electronic system even when it does not work for them. This is discriminatory in practice and the school cannot be coerced to discriminate against any individual.

Comment 18

Due to health issues that can limit the ability of the hand scanner to actually read the hand size; i.e. Cancer treatments, Fertility treatments, pregnancy etc. or by not providing an alternative method of time keeping, the school would be punishing these employees and committing an act of discrimination by not allowing them to work at the school.

Furthermore, the OSC auditors state that these employees did not reveal their medical conditions to them. The employees do not have to reveal their medical history to anyone, the school or the OSC. That is a violation of Labor law as well as a HIPAA issue. By forcing an employee to only have one choice of time tracking, the OSC is instructing the school to violate HIPAA laws and Labor laws that employees should either not be able to work or be forced to reveal their health status.

Conclusion

AOLC has proper procedures in place to ensure that only those employees that actually provided services are paid. Proper time records with supervisory oversight exist, in accordance with the RCM, to support the validity of these charges. Accordingly, it would not be ethical to disallow these costs and the OSC cannot ask the school to return funds because an individual did not use an electronic system. The OSC cannot force the school to carry on discriminatory practices. The School therefore requests that the disallowance be removed. AOLC requests the reinstatement of the disallowed costs.

Comment 19

Compliance with the Reimbursable Cost Manual
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Topic - Time and Attendance Records Existed (Page 9, 1st and 2nd Paragraphs)

The OSC identified employees for which time and attendance records could not be produced. One of the employee's time sheets were given to the OSC auditors and was misplaced as can be evidenced by the email of 5/5/17 at 11:41AM from the OSC that only 3 employees were missing. Unfortunately, while all these time records were produced by AOLC's staff at the time the payroll was processed, they appear to have been misplaced.

Comment 20

Conclusion

OSC ostensibly is disallowing this cost due to missing records. When the auditors misplace documents provided to them, the School cannot be responsible for the loss of these documents. OSC auditors cannot ethically and morally displace the Schools supporting documents and then disallow the cost for a lack of documentation.

Comment 21

Topic – CFO Payroll Costs (Page 9, Last 3 Paragraphs)

The CFO was supervised by the Administrator who shared the same office with the CFO. The administrator knew exactly when he was here and when he left. They are not related parties. Signatures according to the RCM do not have to be dated when a date is produced on top of every single page with the actual date of signature preprinted on it. The salary of the CFO in the report is an error. It was not $87,225. There is absolutely no requirement in the RCM that was not met by the timesheets of the CFO as they are, both contemporaneous and the total time is accounted for.

Comment 9

Comment 22

RCM

In providing guidance to providers regarding how documentation of time worked by employees, the RCM states, "Payroll 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." The RCM leaves the method for such time tracking to the discretion of the provider; which could take the form of manual tracking, electronic tracking, or any combination thereof. The salient points outlined in the RCM are that the time records must exist, they must be contemporaneous, and they must be signed by the employee and approved by a supervisor.

RCM Compliance Requirements	AOLC Compliance
Payroll Compensation costs must be based on approved, documented payrolls	100% compliant
Supported by employee time records prepared during, not after, the time period	100% compliant
Employee time sheets must be signed by the employee and a supervisor	100% compliant
Must be completed at least monthly	100% compliant
Conclusion	**100% Reimbursable Cost**

Comment 10

Support for Compliance with the RCM

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Time Records

Time records for AOLC's CFO were previously provided to you during your audit. The time record also provided the sign-off of the CFO and an Administrator. These signatures represent the internal control component of the time tracking system whereby they are signed by an employee and approved by a supervisor on a contemporaneous basis to provide checks and balances on the accuracy of the employees' time sheets.

The time records presented on audit meet the criteria laid out within the RCM:

1) The time records exist: The auditors reviewed documentation outlining that the CFO was indeed at AOLC providing services as signified by a time record that indicates a start and end time each day
2) The time record is contemporaneous:
    a. The time records are produced on a bi-monthly basis
    b. The time records are utilized by payroll to pay employees.
        i. AOLC has strong internal controls and without an appropriately completed time card, that has all the proper approvals, payroll will not pay an employee.
3) The time records were properly signed by both the employee and the designated Administrator for time sheet approval. The Administrator is designated to approve office staff time records.

In addition, your report states that "AOLC has not provided the administrator and bookkeeper with policies or procedures in regards to handling time and attendance problems." They have at their desk a copy of the Policies and Procedures Manual and follow it completely. The Policies and Procedures manual was furnished to the OSC in February 2017. All procedures were implemented and incorporated into payroll by the bookkeeper. The practice followed by the CFO is in accordance with AOLC's policy as outlined in its employee handbook, which reads:

"There are a few methods of tracking the time of staff in the program that accommodates the needs of the children and staff. They include punching in 100% of the time, punching less than 100% of the time and writing in the missing punch time, submitting time sheets, billing sheets for time spent and/or services provided or a review of sessions scheduled/completed."

Supervisors are requested to review and sign all employee time sheets. The time cards submitted by the CFO, and reviewed and approved by the administrator, were in accordance with AOLC's timekeeping and payroll policy.

Notable Facts Regarding the CFO

The CFO was in compliance with the RCM, in addition to the payroll records provided and described above his actual work products prove he worked diligently and persistently to attain the documents and tracking mechanisms needed from him, he is extremely ethical and honest, and followed AOLC policies.

Additionally, as auditors prior to concluding your assessment you are required to incorporate the history and integrity of the individual and understand and incorporate the following:

a) The CFO performed his job duties as outlined in his job description
b) The CFO has over 4 decades of experience in managing with integrity Healthcare systems in service delivery
c) The CFO uses his experiences to manage transactions and incorporate internal controls and tracking mechanisms to ensure we are billing and operating effectively and efficiently.

AOLC provided the appropriate support to substantiate that its CFO was an engaged employee with documentation supporting the services provided to AOLC in accordance with the RCM. It is notable, that an interview of the CFO performed by the OSC on 2/6/17. This interview report was filled with errors and was sent to the CFO to review for accuracy 70 days later, on 4/20/17 with a deadline of return less than 10 working hours before finalization. Please refer to email of 4/21/17 from the CFO. It is notable as well that no follow up or feedback was provided or questions posed to the CFO after he produced a work portfolio.

Comment 23

We request that the disallowed salaries be reinstated.

Topic - Non-mandated Fringe Benefits and Related Expenses (Page 10, 1st Paragraph)

Employees Allowable Fringe Benefits

Communications – All benefits were offered to all staff. This is first offered upon joining the school based on meeting eligibility criteria. This is reviewed at orientation annually for all staff. This is once again communicated to everyone through an email sent by the ED annually when there are changes to the Health Insurance Plans as shown to the OSC. The email was sent to all staff on 2/20/14 for changes coming in March. Additionally, all notifications are also displayed for all staff in the payroll department and near the company kitchen. In terms of written guidance about what AOLC offers, who is eligible, fee structures for the benefits etc. - over the course of the many months of intense scrutiny, the auditors were provided and went through loads of documents relating to the benefits including the payroll details, invoices from the benefits companies, enrollment forms, health benefit forms, communicative memos that AOLC provides to all of its employees regarding benefits, emails to all employees regarding health benefits including information regarding cost increases and other pertinent details about the benefits, employee orientation meetings where AOLC discusses many areas including fringe benefits, etc.

As it relates to the employee's perspective – Inherently, an employee cannot be included in the benefit plans without being offered the plans, being shown the various options, costs and adding dependents, in advance. The individual must know there is a plan in order to enroll, the individual must know the costs in order to enroll, the individual must know the options of family/couple etc. in order to enroll and the process inherently is loaded with documentation that has been provided to the auditors throughout the many months of intense scrutiny; **they are indeed eligible and allowable costs**. Finance verifies that the employee is scheduled to work for at least 20 hours per week before enrolling the individual.

AOLC's policy of eligibility **–** AOLC provides benefits to employees scheduled to work 20 hours or more per week.

Responses to specific disallowances
According to OSC auditors the employees **averaged** less than the required hours to be eligible for fringe benefits.

Comment 24

Auditor's error:
OSC Error in audit formula – Averaging weekly hours to disallow costs.

General information - OSC is seeking disallowances for individuals that gave birth and were out for maternity leave during the year. **The disallowance is predicated on creating average hours per week.** OSC did not look at the overwhelming number of weeks that the individual had worked the necessary hours and that we were in compliance.

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We do not understand how OSC does not incorporate maternity leave whereby the New York State Department of Labor mandates that these benefits must be continued to be provide by the employer. OSC chose to overlook the fact that that the individuals had babies during fiscal 2014 and were out on maternity leave, and when considering the weeks they worked, they were clearly eligible for benefits. Having a baby definitely requires time away from work for the mom's sake as well as the baby's sake and wellbeing.

It is not logical to expect 960 hours for the year without encompassing the facts that caused it to be less; such as having a baby as well as being a salaried employee versus an hourly employee. The auditors not only translate the RCM differently than the industry as a whole but also our own manuals are being translated differently than conventional understanding. Based on the lower number of hours the auditors took an average in order to disallow their fringe benefit. When looking at the weeks the individual worked and got paid there is no issue with being eligible for benefits. It is clear that in reality the 20-hour thresholds were adhered to.

876 hours is less than 960 – For 18 out of 24 pay period's the employee had equal to or more than 40 hours per pay period. For the remaining 6 pay periods, 4 of them were in September and April which were months of holidays and the school was closed for many days during those months. The fact that she had 876 hours on the CFR represent full time workweeks. When reviewing her weekly hours, it is clear that she worked at least the minimum threshold of 20 hours per week and that her costs are allowable costs.

682 hours and 611 hours are less than 960 due to Birth of Baby - For 2 employees who also worked the required 20 hours per week, yet were out for maternity leaves. Comment 25

With regards to SEIT:
AOLC does not pin down SEITs for 20 hours per week every single week, this is why we provide benefits based on scheduled hours since SEITs actual hours depend on child's availability, school closures, weather challenges and other factors that preclude them from working the full 20 hours per week. SEITs are a fee for service model as opposed to a typical salaried employee. SEITs only get paid for hours worked, therefore, OSC cannot hold the method in calculating an average 20 hours for them.

AOLC should not be punished for allowing time off and providing employees to have benefits based on time actually worked. This is not a rule of the RCM, rather, an opinion and position taken by the OSC auditors that is contrary to common practice, contrary to the law, and was certainly not the intention of the writer of the RCM.

Payroll Deductions for Healthcare - Done Properly and Allowable - The auditors cited AOLC for claiming reimbursement for benefits of its employee as OSC auditors ignored the payroll deductions made.

Auditor's error:
The OSC chose to overlook deductions taken out monthly from the employee's paycheck; we did in fact deduct it from their salary and there are no grounds for disallowance. Employee payroll deductions for these benefits which totaled $7,600 were paid for the insurance plan and provided to the OSC. It was provided again in June 2019 as an example of errors found in the draft report.

Administrative fees – OSC disallowed components of the fee for the AOLC retirement plan.

Auditor's error:
AOLC maintains all support for the complete record keeping and administrative services fees. It was provided to

the OSC.

Dental coverage – OSC disallowed the dental coverage for 3 employees for too few hours and receiving health and dental together

Auditor's error:
Too few hours – They had adequate hours for eligibility as clearly described above, those employees did in fact have adequate hours for eligibility and OSC is using "*average hours*" as a method to disallow these costs which skews the truth.

In conclusion
AOLC has complied with the RCM and has met its requirements for reimbursement of our costs. Mentioning this disallowance and causing a potential recoupment is not correct and a direct disregard for the lives of the children and their families who are heavily reliant on our services.

Topic – Other Than Personal Services (Page 10, Last Paragraph)

The OSC auditors reviewed almost every single receipt and packing slip without limitation to a specific category for the fiscal year 2013-2014.

Cleaning and Maintenance:

A. AOLC utilized a vendor to provide janitorial services during the 2013-14 fiscal years.

B. AOLC conducted bidding and selected this vendor through that process.

C. AOLC had every invoice that included the dates, the units of time, the description of what was done, and the fee per hour.

OSC Auditor feedback
The auditors preferred having specifics such as whether the maintenance crew cleaned a floor versus a toilet.

AOLC Response:

During our exit conference we discussed the level of detail required by OSC in relation to the cleaning and maintenance vendors. There seemed to have enormous confusion between the OSC auditors as to the required level of details needed in the invoices. On one particular invoice, there was a kickplate noted and that detail seemed to have been sufficient until the ED verified with the auditors that the invoice was fine and acceptable. The Audit Supervisor then agreed that the term kickplate was sufficient detail and the specific door of the building was not necessary. The ED asked the auditors which kickplate was installed since there are 98 kickplates in the building. The Audit Manager stated that he saw the point being made (i.e. he reasonably agreed to the ED). If a kick plate is a sufficient description to be acceptable and allowable then so are all of the cleaning invoices. We at the School indicated how confusing these levels of details are since from one perspective OSC does not mandate the specific door that had a broken kickplate to be identified, yet from another perspective they want to specifically identify the toilets, floors, desks etc. The OSC has gone down a never-ending road of interpretation of the RCM and the Schools of NYS should not be held accountable to these highly unclear mandates of specificity.

Comment 26

Comment 27

However, these specifics of what was accomplished daily on that level of detail creates extraneous demands on all NYS Schools to recreate their relationships with maintenance vendors and cleaning crews, stipulating the inclusion on invoices of granular super specific details. Although it is not necessary for AOLC to maintain that level of detail as it extends beyond the RCM requirements for documented invoices, nevertheless, it is attached.

Bidding (Page 14-15, Competitive Bidding)
As outlined in the OSC's report the State Education Department requires the use of a bidding process when the cost of a service is anticipated to exceed $35,000 in a fiscal year. Common practice when obtaining bids is to obtain a minimum of 3 competitive bids. These 3 bids can incorporate all outsourced solutions, or they can include a comparison of outsourced solutions with an internal solution (internally hiring appropriate staff to perform the function internally). These methods help to ensure that the funds are being spent appropriately.

AOLC requested bid pricing from a cleaning company and a staffing company (who provides outsourced housekeeping staffing as part of their services) and AOLC also performed an internal study to determine the cost of providing the services internally. After evaluating the 3 options, AOLC selected the Cleaning Company as the best option for the school primarily because it was the most inexpensive option in keeping the school clean and healthy; the decision process was well documented.

Comment 28

All the bids, including the internal budget of cost to do the services with internal staff, and AOLC's assessment leading to the selection of Cleaning Company was **previously shared with the OSC auditors in March 2017**.

Support for services rendered
In conjunction with AOLC's agreement with the Cleaning company, they provided a contract (copy previously provided to auditors) that outlined the terms of the agreement, the services that they would provide, and the frequency at which such services would be provided. The contract specifies an hourly rate of $12.00 per hour to provide janitorial services.

AOLC is billed weekly for the cleaning services. The invoices provided by the Cleaning Company reflects the number of hour's staff members were on site providing janitorial services each day, the date of service, a description of the service and the extended cost. The contract provides sufficient detail regarding the agreed upon cleaning schedule to be performed and the invoice provides an understanding of the number of hours worked as well as the fact the facility was cleaned and at times information regarding the floor they cleaned.

Comment 26

The rooms used by AOLC need to be cleaned daily and were in fact cleaned daily. The facility includes classrooms, bathrooms, floors, hallways, stairways and by stating they cleaned the facility it is all inclusive.

We receive from the vendor a weekly work schedule, which we have provided to the auditors during the audit. The weekly work schedule shows the initials of the staff members assigned to clean AOLC, the areas they are assigned to, and the time they are slated to provide the service.

Conclusion:

1) There is no violation of the RCM in adequately documenting the services as we have a bid, contract, invoices and details of what was done. Therefore, the cost is reasonable, allowable and reimbursable.

2) It is pointless for invoices to **repeatedly each day** list the following items, which are an example of areas they had to clean:

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Classrooms	Therapy rooms	The floors	The walls	Bathrooms	Hallways	Stairways
Desk areas	Front of building	Back of building	Student messes	Administrative rooms	Fixtures	Parent areas

3) The RCM does not talk about the level of detail needed in the description. We have what the conventional and standard vendor would provide on each invoice and that is exactly what the RCM was referring to as being adequately documented. Each invoice included the date, quantity of hours, rate per hour, and description of service.

4) AOLC properly underwent a bidding process to choose the best responsible bidder to provide the service. $12 per hour on a contracted basis for janitorial services, which includes supervision and guaranteed replacement, is an extremely cost-effective approach to providing the janitorial needs of AOLC. The pricing paid by AOLC to the vendor is a cost-effective rate and is consistent with fair market value for these services

5) The contract is well defined, outlining the nature of the hours and the estimated time and cost per week to provide such service.

6) **The OSC teams extends expectations in an over-broadening manner beyond the standard process of vendors, as well as create extraneous demands on all NYS Schools to recreate their relationships with maintenance vendors and cleaning crews.**

7) The invoices properly outline the necessary components providing comfort to the reader that the work was done in accordance with the agreed upon procedures and contractual requirements.

8) Each invoice would be a daunting task for the vendors and many pages long if the vendor had to spell out every component of what each individual has done and how long each component took each employee.

9) The average cost per week was less than the estimated $3,000 per week outlined in the contract. Furthermore, the contract provides the detail services to be provided and the provider maintains a formal work schedule for AOLC

10) Walking through the building is an ongoing proof that the work is being accomplished throughout the facility as the building is physically and hygienically very clean.

11) The invoices were clerically accurate and within the estimated budget for janitorial services provided to AOLC.

As such, AOLC requests that the OSC reinstate reimbursement of the $103,552 of janitorial services.

COMPLIANCE WITH RCM
AOLC is an organization focused on operating in a healthy, transparent and compliant manner. During fiscal 2014 AOLC employed hundreds of employees. These hundreds of employees generated over 25,000 transactions with regards to payroll, taxes, benefits, income generating activities etc. Of the thousands of

transactions about a handful were noted by OSC as questionable.

1. **Receipts for student related purchases faded (Page 11, 1st Paragraph)**

Per OSC
Local Supermarket: AOLC paid for "snacks" purchased during the FY 2013-14. We examined the receipts that were received from AOLC and noted that the accuracy of some invoices/receipts from the Supermarket could not be verified because they are illegible and/or faded.

AOLC Response:
AOLC properly maintained copies of all receipts as required pursuant to the RCM. Unfortunately, supermarket register tapes sometimes fade due to the nature of the paper and ink utilized by supermarkets. As the OSC auditors can see from the receipts that they were able to read, these were all valid snacks for the children serviced by AOLC. No charges were identified as non-program related. Shaving cream, etc. are used in preschools as explained in an email to the OSC 7/21/17.

Scientifically, these store receipts will typically fade over time as they are made of thermal paper whereby humidity, body oils (from touching them) and other factors can easily cause the writings to fade. However, this would not deem the cost a disallowed item, it is an allowable cost, we provided original receipts to support the cost and at least 80-90% of the wording is actually legible, as concurred to by the OSC auditors. Accordingly, we request that this disallowance be removed.

2. **Printing and Book/Supply Bags**

AOLC Response: All items printed are program related and necessary. The AOLC name appeared on every single item. Our logo is the same logo used for all our school items and paperwork. Regarding the volume being purchased, any additional items being purchased are part of the overall purchasing guidance issued by your office themselves, the Office of the State Comptroller. This OSC Publication of "Seeking Competition in Procurement" can be accessed and viewed online. Please look on page 4 of the guide which states, "Annual purchases (for example, volume purchasing and bidding) can be scheduled during periods when suppliers can be the most competitive. However, this option only works if ample storage space is available for bulk purchases." The OSC encourages volume purchasing NO MATTER WHAT TIME OF YEAR if there is a volume discount. https://www.osc.state.ny.us/localgov/pubs/lgmg/seekingcompetition.pdf is the link to the Publication above. Indeed all items were used during the fiscal year. It is encouraged by your office and we followed the instructions- it must be allowed.

Comment 29

Specific Response – OSC already concurred that AOLC purchased bags for the children which is over 130 in the school and over 100 receiving services outside of the school besides a staff of over 250 who provide the services who also need bags. AOLC has over 250 employees that provide direct services to children that require program supplies to accomplish their assigned tasks. These staff often works on case files out of the office. AOLC purchased the supply bags for the staff as well to hold their supplies while servicing children with disabilities.

Calendars, Booklets, T-shirts

AOLC Response:

Compliance with the Reimbursable Cost Manual
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Background Information:
It is understandable to disallow a cost not related to a school since the State is not funding non-programmatic related costs. Calendars etc. are items typically used in a school and are therefore reasonable, justifiable and allowable costs. We therefore respectfully request that these costs be reinstated.

Specific responses:

A. Generally Accepted Accounting Principles ("GAAP") require an expense to be recorded when an entity incurs an obligation, the RCM requires GAAP reports and as such, we do not measure the cost of each t-shirt based on when each child wears them, rather when we incur the cost. The same applies to paper, tissues, cleaning supplies etc. Therefore, we rightfully reported the t-shirt costs in the correct year.

B. Additionally, the OSC auditors are suggesting that school related costs should not be purchased. How then can a school operate? Would there be a requirement to call the OSC before incurring any cost to see if the OSC auditor would approve the cost or not? The answer is obviously no.

C. Parent involvement is an integral part of our program. In order for D/HH children to learn to listen and speak, it is a rigorous training program for children that must be reinforced by their caregivers at home. In addition to our open-door policy, our program has many parent events that incorporate parent training workshops with hands-on practice with their children in the classroom. The **calendars** are printed to ensure that parents, grandparents and caregivers can be involved and participate in our program. The parent/caregiver events are highlighted on these calendars. Why would this reasonable and justifiable cost possibly be disallowed?

   Booklets are for parent training purposes as well. We have booklets about various aspects of child development to increase parental involvement.

   Postcards Are sent to parents to encourage parental involvement on an ongoing basis.

   T-shirts were purchased in June since we had a trip on June 17th, 2014 to the Children's Museum of the Arts—trip pictures were provided to the auditors. It is critical for the safety of our children that all children and staff are identifiable during off-site activities. We require on trips and at events that all children, teachers, teachers' assistants and therapists are easily identifiable by wearing the t-shirts during those activities, which is why that many t-shirts needed to be purchased.

   All of the printing was utilized for the children and parents enrolled in our preschool program and therefore should not be disallowed.

   As a result, we request the reinstatement of the costs as they were all legitimate, justifiable, reasonable costs that were directly related to our preschool program for special children.

Fish, Clinically Proven, are Calming for Children and Parents-(Page 11, 3rd Paragraph)

As outlined in the OSC's preliminary report, AOLC maintains 2 fish tanks; one on the first floor and the other on the fifth. The OSC disallowed half the cost of the tank maintenance as they assert that the tank on the fifth floor, which is in the Principal's office, is not a valid cost as "the students are not allowed above the 3rd floor and the 5th floor is an administrative floor." The 4th floor is completely administrative not the 5th which is also programmatic.

Comment 30

Compliance with the Reimbursable Cost Manual
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The fish tank is in the Principal's office. Her office is frequently utilized for meetings with children and parents for a myriad of reasons; such as: parent/student conferences, student progress meetings, student enrollment meetings, student visits to share milestones and projects, when students have a melt-down (they love to see the fish), etc. As discussed with the OSC auditors, the fish tank has a calming impact on the children. This is essential to allow the Principal to effectively interface with the student and his/her parent(s) or teacher. Children come with teachers and parents regularly to the 5th floor to speak with the Principal.

This is clearly a necessary cost and should be allowed. As a result, we request the reinstatement of the disallowed Aquatic Scenes invoices.

3. OSC auditors did not note vendor files (Page 11, 4th Paragraph)

AOLC Response:

Background Information:
AOLC had to plead to know which 13 invoices the OSC auditors were referring to; finally, when AOLC was informed of the 13 invoices in question, AOLC provided documents in person and via email in February 16th, 2018 with all of the necessary information to support this cost.

Topic - Depreciation – Building Depreciation (Page 12-14)

Noted by OSC – Missing support for 6.1 Million for costs of the building

Background of building purchase and finance-
The building was purchased via a bond offering through the NYC Industrial Development Authority (IDA). All building costs including invoices and proof of payment, incurred by the school needed to be sent and approved by the IDA before AOLC received the funds from the IDA.

AOLC Responses:

1) All costs of the building are kept in a succinct order together and were furnished to the OSC auditors. Documents were provided to the OSC auditors during the first quarter of calendar year 2018.

2) AOLC could not have moved into the building without the full approved package of documents as the School was working in tandem with the NYC Industrial Development Authority, the Banks, the State Education Department, attorneys, appraisers etc.

3) As confirmed to AOLC by the IDA attorney, OSC auditors independently reached out to the IDA for-and-received-a duplicate copy originating from the IDA that encompassed the package supporting the costs, invoices, proof of payment and all associated building improvements. The OSC has all the documentation.

4) AOLC provided a comprehensive detailed description including multiyear analyses for building costs, banking costs, interest, Bond fees and interest, per year. OSC auditors made hundreds of copies of all of these documents for their records. We are providing again to the auditors numerous documents,

although already provided, for the items that were paid directly to the bank that needed no IDA approval.

5) AOLC provided the complete package for the $11.95 Million
    - Building appraisal as of November 2006 - $7.85 Million – Documents provided to OSC auditors
    - Closing costs - $413k – Documents provided to OSC auditors
    - Bond interest and Fees - $1.9 Million – Documents provided to OSC auditors
    - Building readiness - $1.8 Million included insurance, construction, HVAC, plumbing, electric etc. – Documents provided to OSC auditors

Comment 31

Accordingly, AOLC requests that the OSC reinstate the reimbursement allowability for the building costs.

Topic - OSC – Documented Expenses – Details of Assets on Fixed Asset Schedule:

Per OSC – AOLC's fixed asset schedule would need expanded information regarding the assets.

AOLC General Response – A depreciation schedule was provided to the OSC auditors. As an example, below is a summary of the description of a few of the assets. Having this level of detail is not efficient:

HP Proliant Dl 380p Gen8-Xeon E5-2670 2.6 Ghz, Care Pack 3 Yr 24X7 4hr Dl360 G5 Sby Only, HP Flash Backed Write Cache- Raid Controller Cache Memory (512mb), HP Proliant Dl360p Gen 8-Xeon E5-2609 2.4 Ghz Server.

We have satisfied this item as described above; any further detail would confuse a reader, our accounting department, and would be prone to error as finance does not understand the jargon written on these invoices. Our detail is useful and workable and is the intention of the RCM when it requires description of assets.

The details do not add any value, insight or wisdom to anyone and this would explain why fiscal offices and finance departments use the conventional descriptions of assets which are comprehensible and correlate to meaningful data, such as estimated useful lives of the assets and our descriptions are clearly the intention of the RCM.

Additions to Building- were provided to the OSC auditors on site and they actually came into the rooms where the items were built and installed to view them.

AOLC Specific Responses - Appendix O list of required items for tracking fixed assets:
The list of 9 items required of an organization to track for fixed assets are being complied with and have been provided to the OSC auditors back in February 2018.

a) Description of Asset – we provided the description of the asset in accordance with the RCM. This has been responded to above, please see the above response.
b) Date of acquisition – This has been included. We calculate depreciation according to the year of commencement and accordingly that is the information needed to calculate record and report depreciation. Our schedule included this already.
c) Cost at acquisition – this has been included in our analyses as well along with the other required information.
d) Salvage Value – We do not have salvage value, as they will be obsolete in the market place. Computers and any recent equipment will always be obsolete with no salvage value since technology is moving at

unprecedented speeds and the assets of today are superseded by the assets of tomorrow with greater speed and usability and functionality.

e) Depreciation method – our schedule provided the depreciation method. The RCM requires the straight-line method and we have used it and reported our method as such on the fixed asset schedule.
f) Useful life for depreciation purposes – Our schedule provided the useful life of the assets. These lives are estimated and follow conventional accounting methodologies. The amounts calculate using the useful life data within the cells on excel in order to arrive at the depreciation calculation for the period in question.
g) Annual depreciation amount – Our schedule has included the annual depreciation amount. This was a function of calculating the useful life by the cost of acquisition and used the date of acquisition to identify when the asset would be fully depreciated based on the estimated useful life.
h) Accumulated depreciation – Our schedule included the accumulated depreciation amounts per line item. This amount has been calculated using the other information on the schedule such as the asset cost at acquisition, the useful life, the date of acquisition, the depreciation method etc. so that we could arrive at the yearend accumulated depreciation amount.

AOLC has complied with the RCM and has met its requirements for reimbursement of our costs. Mentioning this disallowance is incorrect and causing a potential recoupment is a direct disregard for the lives of the children and their families that are heavily reliant on our services. As such, AOLC requests that the OSC reinstate reimbursement for the costs.

Building Square Footage – Sub-Cellar (Page 14, 1st half of page)

OSC auditors state that we included non-reimbursable costs relating to the Schools sub-cellar.

AOLC Response – OSC is making a blatant intentional error

a) AOLC **costs for reimbursement just include 494** square feet for reimbursement which the OSC auditors have already agreed to in meetings.
b) The **OSC's report specifically agrees with AOLC** that the 494 square feet are in fact allowable.
c) There were **no other square feet in the sub-cellar included** in AOLC's CFR and AOLC has not included any other square feet.
d) There is **no basis for disallowing costs** that AOLC did not incur, since AOLC just reported costs for the 494 square feet that the OSC has agreed to in their report.

Depreciation - 25 versus 40 years for estimated Useful Lives (Page 14, 2nd half of page)

Compliance:

1. **Compliance with GAAP Reporting** – the CFR Manual requires GAAP accounting. GAAP accounting allows management to provide estimates within its reporting system. FASB ASC 360-10-35-4 states that depreciation is a system of accounting that aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. AOLC has reported in accordance with GAAP.

2. **Compliance with CFR Manual Appendix O – Allowable Alternative Useful Life**

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Appendix O clearly advises us, when reasonable, to use an alternative useful life that management deems more appropriate. Since there are many factors that may be incorporated into estimating the life of an asset (including volume of people coming and going, age of individuals and their level of activity, level of developmental disability of the children etc.) and it is not the same life for every single building, management at AOLC had the discretion provided by the NYS Education Department to identify a reasonable life for depreciation. In management's estimate, the rationale provided is reasonable and therefore useable. AOLC has reported in accordance with the NYS CFR MANUAL.

Compliance with CFR Manual Appendix A Glossary – Depreciation: "The process of writing off the acquisition cost of a fixed asset over the estimated useful life. Depreciation is the decline in economic potential of limited life assets originating from wear and tear, natural deterioration through interaction of the elements, and technical obsolescence."

AOLC understands that the CFR Manual agrees to our approach of incorporating many details and facets relating to the assets before imposing a depreciable life to the assets and that sheltering the depreciable life based on the materials of the building alone would not depict a fair-minded and accurate approach and remains an unjustifiable approach in our circumstances.

Alternative reasoning for years of depreciation - Justified reason for using 25 years

Comment 32

1. **Status of building from the onset** – 40 years may have been for a newly constructed building. The AOLC building was damaged from the time we moved in, which included 7 years of water damage before we even moved in. There were water leaks that were unable to be located unless we tore off the entire building façade. AOLC decided not to do this work and throughout the 25-year life they would seek to find the issues and repair them. This problem also affected the concrete in front. Accordingly, 40 years is far too long to live in the building before we do considerable work on it. The HVAC system has a maximum life of 20-25 years and then all units, ductwork and related electricity will need to be renewed/repaired/replaced.

2. **Contractor's professional advice** - During the construction phase of the building we noticed several water leaks coming from different areas of the building (indoor and outdoor). These issues did not affect the integrity of the building and would be too costly at that point in time to locate and remedy. We deemed it useable for 25 years before having to make significant improvements. We estimated having to redo many structural issues at the end of 25 years – heating, boilers/HVAC and duct work, roof, reorganization of floors, water lines and accordingly the life of the asset is in fact estimated to be 25 years and not 40 years.

3. **Current proof of building strength and life** - Currently, as we reside in the future years, the School is actually undergoing a large project of fixing the waterproofing for the entire building and general building structure. This is a complete proof that the building cannot handle a 40 year life without huge facelifts and improvements. Therefore, the costs would not reasonable be correct if they were spread over 40 years.

Compliance with the Reimbursable Cost Manual
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Depreciation Expense – OSC Calculation Error

Error in calculation of alleged disallowance
The actual numbers do not add up to the total of $566,014 requested to be disallowed. Although we requested to see exactly what went into this calculation it was denied to us.

The OSC agrees that there is a building and it costs money - there must be depreciation. As far as AOLC, we disagree with the disallowance since our costs were legitimately supported by many documents that were provided to and obtained by the OSC auditors. The OSC agrees that there was a cost that was documented and must not ignore the documents that were provided to validate the cost for reimbursement.

Other Matters and Conclusion

Page 16- Audit Scope, Objective and Methodology
Although the OSC lists a few documents reviewed during the audit, they clearly omitted the fact that the OSC also reviewed all of the AOLC Policies and Procedures Manual which included Fiscal Policies, Conflict of Interest Policies, Business Ethics, Payment Policies, Conduct and Whistleblower Policies, Health and Safety Policies, and Medicaid Compliance Policies. Comment 6

Page 17- Statutory Requirements
OSC claims they did not receive a representation letter. However, a representation letter was requested from AOLC on March 20, 2018 one month after the exit conference. The original was mailed back on March 21, 2018. After being informed for the first time in June 2019 that the OSC does not have this letter, a copy of the representation letter sent by AOLC to the OSC was provided via email twice in June 2019. Comment 5

We urge the State to accept AOLC's responses to the items noted by the OSC. As indicated earlier, many of the responses can be elaborated upon yet we provided a sample of what we thought would be adequate for the State. The financial burden that can result from accepting the OSC's suggestions is enormous.

AOLC runs a quality driven program that helps children and families succeed in a mainstream environment, with the goal of providing students the foundation to be mainstreamed. AOLC completely complied with the RCM manual. AOLC looks forward to continuing to service the community, families and students.

Thank you for the opportunity to respond.

Respectfully,
AOLC

State Comptroller's Comments

1. We stand by our report. The recommended disallowances in the report are properly supported based on our review of the documents provided by the ED and those employees designated by the ED to meet with the auditors. Throughout the almost 12 months of field work, AOLC had every opportunity to provide records to the auditors who were on site. In addition, we met with the ED and the employees he selected prior to issuing nine preliminary findings. Each preliminary finding spelled out the expenses reviewed, the expenses that were and were not supported, and the recommended disallowance. We thoroughly reviewed AOLC's response and revised the recommended disallowance where appropriate. In line with our audit process, upon completion of the field work phase of the audit, we held a closing conference. We informed the ED and other AOLC employees of the audit results and that a draft report would be issued with a request for a formal response within 30 days of the draft report. AOLC replied to the draft report after two months and stated it was not "granted the opportunity to review the detailed worksheets supporting the specific disallowances." However, AOLC never requested this information, although it had ample opportunity.
2. While AOLC officials replied "AOLC has lived with and operated in compliance with the RCM," they did not provide sufficient documentation to support this statement. For example, AOLC claimed depreciation expenses for its building based on a cost of $11.9 million, but provided appropriate supporting documentation for just $5.8 million. Thus, AOLC's claim that it "has lived with and operated in compliance with the RCM" was not always the case.
3. As previously stated, the auditors were on site, interacting with staff, for about 12 months, providing AOLC opportunities to request information. However, they never did. In fact, an accurate picture of the events is that AOLC was slow and, at times, non-responsive to requests for records to support the CFR-reported expenses. For example, the initial set of records requested was due by November 16, 2016. However, despite repeated requests, the records had not been provided as of December 22, 2016. It was not until we issued a preliminary finding disallowing AOLC's entire claim of $9.9 million that records were provided. This practice of not responding in a timely manner to requests for records required for the audit continued throughout the audit.
4. Working papers supporting each disallowance included in the preliminary findings were provided to the ED. We have considered AOLC's concerns and are not planning to modify our audit report.
5. The representation letter was not accepted by the auditors because AOLC changed the letter, deleting wording that stated the auditors were limited to a first floor conference room and had limited access to AOLC staff and records. These conditions resulted in most – and in some cases all – meetings and access to records being provided by only the ED and selected employees.
6. The report was revised based on information provided in response to the draft report.

7. We disagree; the employee stated she created her own time sheet in Excel.

8. According to AOLC's administrator, the hand scanner was operational for fiscal year 2013-14. Any employees who experienced issues could have had their hand rescanned. Moreover, AOLC had a service contract for maintenance and there was no record of any calls that year.

9. The time sheet does not have a date for when the manager signs it. The $87,225 in salary is disallowed is due to insufficient documentation for administrative personnel.

10. AOLC's response that the bookkeeper "does this all the time" confirms that there is no documentation to support the changes made to the time sheets. Thus, the bookkeeper made the adjustment and there is no indication that the supervisor approved or signed off on the adjustment.

11. Our analysis gave them credit for an additional 240 hours of work; however, these employees still did not meet the required number of hours of work per pay period.

12. We adjusted our report so the information now reconciles.

13. This amount is accurate. It represents the recommended disallowance after AOLC provided documents in response to the preliminary findings that properly support the initial purchase of the building and costs related to that specific event for the cost-based programs audited. We also obtained records from the New York City Department of Finance that show the ownership was transferred to AOLC.

14. The $479,589 is the total amount reported as "Depreciation-Building" on the CFR it filed for the year ended June 30, 2014. The CFR-1 total is $332,861, the CFR-2 had $28,775 for "Strivright," and the CFR-3 had $117,953.

15. AOLC's response is incorrect. Auditors are not recommending a disallowance based solely on the fact that the employees did not scan out. Rather, the time records were also missing dates, and adjustments were made to the time records, but the bookkeeper did not maintain records supporting the adjustments made before the documents were submitted to the vendor processing the payroll. Further, as stated in the report, the RCM requires related parties to meet higher standards of accountability than unrelated parties. Two of the employees who are related to the ED also hold management positions, and one swiped out on only 1 of the 240 days reviewed.

16. We only disallowed salaries when they were not supported with appropriate documentation. Disallowances for the entire year were recommended because the payroll and time recording defects covered an entire year. For example, we state that for two out of nine SEIT employees, we did not receive any time records and their salaries were disallowed. The RCM states that the costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented.

17. This statement is incorrect. We requested documents to support the work done from the employees and the bookkeeper responsible for reviewing time records before the information was sent to the payroll processing vendor and also in the preliminary findings sent to the ED.

18. Auditors are not encouraging discriminatory practices in any format. The first time AOLC made a statement like this was in response to a preliminary finding related to personal service costs. At that time, we requested AOLC provide specific information to support its statements and none was provided. In addition, the auditors did not request any medical information. In fact, AOLC introduced the excuse that an employee could not use the hand scanner due to health-related circumstances.

19. AOLC's response is disingenuous and inflammatory. The RCM requires appropriate written documentation of costs. This has nothing to do with the ethics of recommending a disallowance or any discretionary practices. Further, OSC does not ask the school to repay disallowed costs. Rather, SED is responsible for addressing the recommended disallowances with the school.

20. The referenced email from May 5, 2017,11:41 a.m., clearly states that the time and attendance records for three employees could not be located by AOLC. Additionally, OSC staff were restricted to a conference room on the first floor. Any documents, time sheets, personnel records, or invoices had to be requested, and AOLC staff on the fifth floor would bring them down to the conference room and pick them up at the end of the day. OSC staff did not remove original documents from the premises.

21. The RCM states, "Final costs are determined upon field audit and will be considered for reimbursement provided such costs are reasonable, necessary and directly related to the education program." AOLC was not in compliance with the RCM.

22. The statement that "The administrator knew exactly when he was here and when he left" is not accurate. OSC interviewed the administrator, and he stated that he does not have to be at work to attest to the CFO's time. The administrator stated that he simply asks the CFO what time he came in and left work, and, if necessary, he'll ask people around the office. Further, this does not meet the requirement in the RCM.

23. The inference that there were numerous errors is wrong. The CFO supplied additional clarifications, which was the purpose of the process.

24. The determination of whether the personal service costs claimed were reimbursable is premised on the basic requirements of the cost-based programs: they must be reasonable, necessary, directly related to the preschool program, and sufficiently documented. We included all the weeks worked, and averaging the hours worked is in favor of the employee because it allocates the hours over all the weeks instead of just the weeks the employee actually worked. AOLC replied that it provides benefits to employees scheduled to work 20 hours or more per week. During our field work, the

ED advised that, every six months, AOLC supervisors evaluate their employees' time records to ensure they are working 20 hours per week. If supervisors identify employees working less than 20 hours per week, they contact the bookkeeper and advise her to terminate the employees' benefits. This is done informally; the supervisor does not provide the bookkeeper with supporting documentation such as time and attendance records or payroll registers. Employees who go back to working 20 hours per week are re-enrolled immediately.

25. We further analyzed the annual hours worked and factored in time for maternity leave, and the employees still had an insufficient number of hours to be eligible.

26. We refer to RCM Section III.1.C.2: "Adequate documentation includes, but is not limited to, the consultant's resume, a written contract which includes the nature of the services to be provided, the charge per day and service dates. All payments must be supported by itemized invoices which 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."

27. At the closing conference, the Program Director stated AOLC would contact the cleaning company and request invoice details from 2013-14. However, these documents were not provided.

28. The "3 bids" were not received from three competitive firms. AOLC's internal solutions are not a bid; they may be a benchmark for analysis, but are not a bid. The other two bids were not from competitive firms. They supplied services that were distinct from one another.

29. The report is clear: the quantity of bags purchased was unreasonable for the period, and the "Strivright" logo on the bag is for a separate entity.

30. The fifth floor has the following: the program director office, the executive director office, two reception areas, and four executive offices. No space is allocated for the school's programs.

31. We maintain our position that AOLC did not support the total building costs with records from the time of purchase to the 2013-14 year audited. For example, the response states that included in the cost of $11.9 million is the appraised value of $7.85 million. However, the cost to purchase the building is not the appraised value.

32. AOLC supplied a copy of the building's appraisal, which concluded that "a majority of the premises is unfinished (floors, walls, ceilings, partitions). Overall condition of the building is very good" (page 17).

Contributors to Report

Executive Team

Tina Kim - *Deputy Comptroller*

Ken Shulman - *Assistant Comptroller*

Audit Team

Carmen Maldonado - *Audit Director*

Robert C. Mehrhoff - *Audit Manager*

Joseph F. Smith - *Audit Supervisor*

Katrina Lau - *Examiner-in-Charge*

Alassane Kinda - *Senior Examiner*

Slamon Sarwari - *Senior Examiner*

Rupert Wilmot-Dunbar - *Senior Examiner*

Jeffrey Louissaint - *Student Assistant*

Contact Information
(518) 474-3271
StateGovernmentAccountability@osc.ny.gov
Office of the New York State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236