New York State Comptroller
THOMAS P. DiNAPOLI

Psychotherapeutic Evaluational Programs, Inc. dba Parsons Preschool – Compliance With the Reimbursable Cost Manual

State Education Department

Report 2018-S-26| **December 2019**

Spotlight on Education

Audit Highlights

Objective

To determine whether the costs reported by Psychotherapeutic Evaluational Programs, Inc. dba Parsons Preschool (Parsons) on its Consolidated Fiscal Reports (CFRs) 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 (CFR Manual). The audit focused primarily on expenses claimed on Parsons' CFR for the fiscal year ended June 30, 2015, and included certain expenses claimed on its CFRs for the two fiscal years ended June 30, 2014.

About the Program

Parsons is a New York City-based for-profit organization authorized by SED to provide full-day Special Class (SC), full-day Special Class in an Integrated Setting (SCIS), and Special Education Itinerant Teacher (SEIT) preschool special education services to disabled children 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. Parsons' SEIT program was discontinued at the end of the 2012-13 fiscal year. The New York City Department of Education (DOE) refers students to Parsons based on clinical evaluations and pays for Parsons' services using rates established by SED. The rates are based on the financial information Parsons reports to SED on its annual CFRs. SED reimburses DOE for a portion of its payments to Parsons based on statutory rates. Reimbursable costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. For the three fiscal years ended June 30, 2015, Parsons reported approximately $12.2 million in reimbursable costs for the cost-based programs under audit.

In addition to the SC, SCIS, and SEIT preschool special education programs, Parsons operated two other SED programs: Evaluations and 1:1 Aides. However, payments for services under these two programs are based on fixed fees. Parsons collaborates with the North Side School (North Side) to offer SCIS classes. In addition, North Side operates Universal Pre-Kindergarten and a Toddler-Preschool program. During the 2014-15 school year, Parsons served about 400 students.

Key Findings

For the three fiscal years ended June 30, 2015, we identified $1,782,360 in reported costs that did not comply with the requirements in the RCM and the CFR Manual, as follows:

- $612,855 in non-reimbursable personal service costs associated with paid lunch periods for employees.
- $394,811 in undocumented rental expenses for the fiscal year ended June 30, 2013.
- $221,417 in rental expenses that were charged to Parsons' cost-based programs. These expenses should have been allocated to North Side.

- $159,781 in undocumented and/or insufficiently documented expenses, including a $94,010 levy by the Department of Taxation and Finance, $31,682 for pension plan audits, and $34,089 in compensation costs.
- $125,841 in undocumented expenses for repairs and maintenance, supplies and materials, consulting, vehicle usage, and cell phones.
- $115,714 in utility, equipment, repair and maintenance, cleaning, elevator, air conditioning, telephone, and extermination expenses. These expenses should have been allocated to North Side.
- $89,989 in accrued rent expenses, including $49,781 for the fiscal year ended June 30, 2014 and $40,208 for the fiscal year ended June 30, 2015. Parsons officials could not provide documentation to show that the rent was paid.
- $61,952 in Unemployment Insurance contributions. Parsons failed to pay its contributions in a timely manner, thus incurring higher contribution rates.

We found that Parsons' independent certified public accountant refrained from expressing opinions on Parsons' financial statements because the school was suffering recurring losses from operations and had a net capital deficiency that raised substantial doubt about its ability to continue as a going concern. However, Parsons officials did not submit fiscal viability plans to SED, during the three years, as required.

Key Recommendations

To SED:

- Review the recommended disallowances resulting from our audit and make the appropriate adjustments to Parsons' CFRs and tuition reimbursement rates, as warranted.
- Work with Parsons officials to ensure their compliance with the provisions of the RCM and the CFR Manual.
- Monitor Parsons' operations and request fiscal viability plans, if warranted.

To Parsons:

- Ensure that all costs reported on future CFRs comply with the requirements in the RCM and the CFR Manual.

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

December 16, 2019

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

Ms. Michelle Pascucci
Executive Director
Pyschotherapeutic Evaluational Programs, Inc.
dba Parsons Preschool
84-60 Parsons Blvd.
Jamaica, NY 11432

Dear Ms. Tahoe and Ms. Pascucci:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and, by so doing, providing accountability for tax dollars spent to support government-funded services and 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 Psychotherapeutic Evaluational Programs, Inc. dba Parsons Preschool to the State Education Department for the purposes of establishing the tuition reimbursement rates. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 4410-c of the State Education Law.

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

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Glossary of Terms

Term	Description	Identifier
CFR	Consolidated Fiscal Report	*Key Term*
CFR Manual	Consolidated Fiscal Reporting and Claiming Manual	*Policy*
DOE	New York City Department of Education	*Agency*
DOL	Department of Labor	*Agency*
North Side	North Side School	*Service Provider*
OTPS	Other than personal services	*Key Term*
Parsons	Psychotherapeutic Evaluational Programs, Inc. dba Parsons Preschool	*Service Provider*
RCM	Reimbursable Cost Manual	*Policy*
SC	Special Class	*Key Term*
SCIS	Special Class in an Integrated Setting	*Key Term*
SED	State Education Department	*Auditee*
SEIT	Special Education Itinerant Teacher	*Key Term*
UI	Unemployment Insurance	*Key Term*

Background

Psychotherapeutic Evaluational Programs, Inc. dba Parsons Preschool (Parsons) is a New York City-based for-profit organization approved by the State Education Department (SED) to provide full-day Special Class (SC), full-day Special Class in an Integrated Setting (SCIS), and Special Education Itinerant Teacher (SEIT) preschool special education services 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. Parsons' SEIT program was discontinued at the end of the 2012-13 fiscal year.

In addition to the cost-based preschool special education programs, Parsons operated two other SED-approved preschool special education programs: Evaluations and 1:1 Aides. However, payments for services under these programs were based on fixed fees, as opposed to the cost-based rates established through financial information reported on the Consolidated Fiscal Reports (CFRs) Parsons filed with SED. During our audit scope, Parsons entered into a four-year collaborative agreement with the North Side School (North Side), wherein North Side operates SCIS classes at Parsons' 84-60 Parsons Boulevard location. North Side also operates Universal Pre-Kindergarten and a Toddler-Preschool program at this location. During the 2014-15 school year, Parsons served about 400 students.

The New York City Department of Education (DOE) refers students to Parsons based on clinical evaluations and pays for Parsons' services using rates established by SED. These rates are based on the financial information Parsons reports to SED on its annual CFRs. To qualify for reimbursement, Parsons' expenses must comply with the criteria set forth in SED's Reimbursable Cost Manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual), which provide guidance to special education providers on the eligibility of reimbursable costs, the documentation necessary to support these costs, and cost allocation requirements for expenses relating to multiple programs and entities. The State reimburses DOE 59.5 percent of the statutory rate it pays to Parsons.

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 three fiscal years ended June 30, 2015, Parsons reported approximately $12.2 million in reimbursable costs for the cost-based programs. This audit focused primarily on expenses claimed on Parsons' CFR for the fiscal year ended June 30, 2015, and included certain expenses claimed on its CFRs for the two fiscal years ended June 30, 2014.

Audit Findings and Recommendations

According to the RCM, costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the special education program, and sufficiently documented. For the three fiscal years ended June 30, 2015, we identified $1,782,360 in reported costs that did not comply with SED's requirements for reimbursement. These ineligible costs included $834,588 in personal service costs and $947,772 in other than personal service (OTPS) costs. (See Exhibit at the end of the report.)

Personal Service Costs

Personal service costs, which include all salaries and fringe benefits paid or accrued to employees on the service provider's payroll, must be reported on the CFR as either direct care costs (e.g., teachers' salaries) or non-direct care costs (e.g., administrators' salaries). For the three fiscal years ended June 30, 2015, Parsons reported approximately $9 million in personal service costs for its SED preschool cost-based programs. We identified $834,588 in personal service costs that did not comply with the RCM and the CFR Manual's guidelines for reimbursement.

According to the RCM, costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the special education program, and sufficiently documented. In addition, compensation paid to employees for their lunch period is not reimbursable. The RCM also states that costs resulting from violations of or failure by an entity to comply with federal, State, and/or local laws and regulations are not reimbursable. Appendix X of the CFR Manual states that a cost must be reasonable and/or necessary for providing services in both its nature and amount. In determining the reasonableness of a given cost, consideration will be given to whether the cost is generally recognized as ordinary and necessary for the operation of the organization and the restraints or requirements imposed by federal and State laws and regulations. Unreasonable and/or unnecessary costs are not allowable.

Ineligible Compensation Costs

For the three fiscal years ending June 30, 2015, we identified $674,807 in ineligible compensation costs, as follows:

- $612,855 ($504,137 in salary and $108,718 in associated fringe benefits) in daily half-hour lunch period compensation costs claimed by Parsons for its staff. According to the RCM, compensation paid to employees for their lunch period is not reimbursable.

- $61,952 in Unemployment Insurance (UI) contributions. Department of Labor (DOL) officials advised us that a provider may have its contribution rates increased if quarterly returns are not paid within 60 days of the due dates. We found that Parsons was not paying its UI contributions to DOL within 60 days. Consequently, DOL increased Parsons' UI contribution rates, for the three fiscal years ending June 30, 2015, from 8.1 percent to 9.9 percent.[1] We calculated that Parsons, during the three fiscal years, incurred $61,952 in unnecessary and unreasonable UI contribution costs due to late payments. We recommend that SED disallow the $61,952.

Insufficiently Documented Personal Service Costs

We identified $159,781 in undocumented or insufficiently documented costs as follows:

- For the fiscal year ended June 30, 2013, Parsons reported approximately $272,128 in employee medical expenses on its CFR. A review of Parsons' general ledger and bank statements showed that $100,622 of the $272,128 was a levy by the Department of Taxation and Finance. A levy is generally associated with a tax, fee, or fine. Parsons officials could not provide any other documentation to justify or support the payment of the levy. We recommend that SED disallow $94,010, the amount of the levy Parsons allocated to the cost-based programs.
- For fiscal year ended June 30, 2013, Parsons reported $339,788 in non-mandated fringe benefits on its CFR. Parsons officials told us that $15,000 of the $339,788 was a reimbursement to North Side, which had paid a consultant to audit Parsons' Pension Plan. However, Parsons officials could not provide documentation to show that the costs incurred by the consultant were for services provided to Parsons or that the amount was actually paid by North Side. We recommend that SED disallow $14,287, the amount allocated to the cost-based programs.
- For fiscal year ended June 30, 2014, Parsons reported $159,435 in non-mandated fringe benefits on its CFR. We determined that the $159,435 included an accrual of $18,000 in fees for an audit of Parsons' 401(K) Pension Plan. To support the expense, Parsons officials provided an invoice dated April 5, 2016, which stated, "For professional services rendered for the period of 4/1/2016 - 4/30/2016 Audit of 2014 401K pension plan." Parsons officials also provided a check for $18,000 dated April 5, 2016. However, this check did not relate to our audit period. We recommend that SED disallow $17,395, the amount of the fees allocated

1 DOL's contribution rate was 4.8 percent in 2005. It increased to 6.4 percent in 2006 and continued to increase thereafter.

to Parsons' cost-based programs.

- On November 25, 2015, SED approved a tuition rate increase for Parsons' center-based full-day program. The tuition rate increase was based on a request from Parsons officials, who claimed they had difficulty hiring and retaining qualified staff. Parsons officials reported that the funds were then used to provide retroactive salary increases to 110 employees. We reviewed available documentation and found that 10 checks totaling $46,617 had not been cashed as of November 2018. This was brought to the attention of Parsons officials, who advised that manual checks were then issued – we were provided with the check stubs. However, as of May 15, 2019, we were not provided with evidence that the manual checks were cashed. We recommend that SED disallow $34,089 ($28,681 in salaries and $5,408 in fringe benefits), the amount allocated to the cost-based programs.

Other Than Personal Service Costs

According to the RCM, costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. For the three fiscal years ended June 30, 2015, Parsons reported $3,051,341 in OTPS expenses for its SED cost-based programs. We identified $947,772 in OTPS expenses that did not comply with SED's reimbursement requirements.

Undocumented or Insufficiently Documented Expenses

The RCM states that costs incurred in less-than-arm's-length leases of real property transactions shall be reimbursed based on the owner's actual costs or fair market value, whichever is less. Moreover, occupancy costs are based on actual documented rental charges, supported by bills, vouchers, etc. Donated rent is not reimbursable. The RCM also states that consultant charges are to be supported by adequate documentation. Furthermore, the RCM states that the use of privately owned vehicles for program business by employees is reimbursable, provided such use is documented and necessary. Vehicle use must be documented with individual vehicle logs that include, at a minimum, the date and time of travel to and from each destination, the mileage between each destination, the purpose of travel, and the name of the traveler. We found $610,641 in expenses that were undocumented and/or insufficiently documented, as follows:

- For fiscal year ended June 30, 2013, Parsons rented space at 84-60 Parsons Boulevard from its Executive Director. Parsons reported $411,000 in rental expenses for this space. Parsons officials provided documentation to show the actual cost of the rental. However, they could not provide a lease agreement, the market value of the space, or documentation to show that the rent was paid. We recommend that SED disallow $394,811 in rent expense, the amount allocated to the cost-based programs.
- $54,953 in the fiscal year ended June 30, 2013 for repairs and maintenance expenses paid by North Side. Parsons officials could not provide documentation to show that the expenses were for services provided to Parsons or that the amount was actually paid by North Side. We recommend that SED disallow $52,788, the amount allocated to the cost-based programs.
- Parsons reported $50,500 in accrued rent for space at 84-60 Parsons Boulevard for two months in fiscal year ended June 30, 2014. We were not provided with documentation to show that the rent was paid. We recommend that SED disallow $49,781, the amount allocated to the cost-based programs.
- For June 2015, Parsons reported $40,820 in accrued rent for space at 84-60 Parsons Boulevard and 231-10 Hillside Avenue. Parsons provided the auditors with copies of two checks totaling $41,452 dated September 10, 2015 to show that the accrued rent was paid. The memo lines on the rent checks originally stated “Sept 2015 Rent” – which would be rent applicable to the fiscal year ended June 30, 2016 rather than fiscal year ended June 30, 2015. We noted that “Sept” was later crossed out and “June” was written in. Parsons officials did not provide documentation to show that the payments were for the fiscal year ended June 30, 2015. We recommend that SED disallow $40,208, the amount allocated to the cost-based programs.
- $20,250 in expenses charged to the telephone, repair and maintenance, and supplies and materials non-household expense accounts. Parsons officials were unable to provide support for $19,623 in expenses. We recommend that the $19,623 be disallowed.
- $27,505 in classroom supplies for fiscal year ending June 30, 2014. No documentation was provided to support these expenses. We recommend that SED disallow $25,669, the amount allocated to the cost-based programs.
- $18,000 in consultant expenses for fiscal year ended June 30, 2015

where no supporting documentation was provided to show that the expense was for fiscal year 2015. We recommend that SED disallow $17,440, the amount allocated to the cost-based programs.

- $6,578 in vehicle lease payments, parking, gas, and advertising expenses. Parsons officials did not have vehicle logs or other documentation to support $5,991 in expenses. We recommend that SED disallow $5,991, the amount allocated to the cost-based programs.
- $5,625 in expenses for five cell phones, Parsons officials could not account for four of the five cell phones and their associated expenses. We recommend that SED disallow $4,330.

Overpayment of Rent

According to the CFR Manual (Appendix J), when programs share the same geographic location, property and related costs must be allocated among the programs that benefit from those resources. As stated in the RCM, expenses that cannot be directly charged to a specific program must be allocated across all such entities deriving benefits, and entities must use allocation methods that are fair and reasonable as determined by SED. It also requires that such allocation methods be documented and retained for a minimum of seven years.

In February 2013, Parsons officials signed a five-year lease agreement for 12,000 square feet of space at 84-60 Parsons Boulevard. In July 2013, the lease was amended to allow North Side to assume some of the space rented by Parsons. However, Parsons officials continued to pay the same rent even though the space it occupied was reduced. We determined that North Side should have paid $221,417 for the space it occupied during the two fiscal years ended June 30, 2015. Consequently, we recommend that SED disallow $221,417 in rental expenses, the amount that should have been allocated to North Side.

Incorrectly Allocated Expenses

According to the CFR Manual (Appendix J), when programs share the same geographic location, property and related costs must be allocated among the programs that benefit from those resources. The RCM states that expenses that cannot be directly charged to a specific program must be allocated across all such entities deriving benefits, and entities must use allocation methods that are fair and reasonable as determined by SED. Also, such allocation methods must be documented and retained for a minimum of seven years.

Parsons, in a collaborative relationship, shared space at 84-60 Parsons Boulevard with North Side. Parsons officials explained that the two entities do not share certain expenses, as they each maintain separate agreements and invoices. Parsons officials advised that they are required to provide an elevator for its students and should pay for its repairs and maintenance. However, we noted that North Side students and staff also use the elevator. Parsons officials also advised that there is an oral agreement wherein Parsons officials pay all electricity costs and North Side pays all water charges – water charges are generally lower than electricity costs. Parsons officials asserted that the higher utility costs are offset by the low collaboration fee Parsons pays to North Side. Parsons officials failed to provide sufficient documentation to show that the entities had separate agreements for services. Absent documentation specifically and reasonably requiring expenses to be paid by one of the entities, expenses must be allocated between the entities deriving benefits from the services.

We determined that $209,356 in expenses for the 16,409 square feet at 84-60 Parsons Boulevard should be shared between Parsons and North Side. Parsons occupied 7,029 square feet and North Side the remaining 9,380 square feet. Based on the square footage calculations, we determined that $115,714 of the $209,356 in expenses should be allocated to North Side for the two fiscal years ending June 30, 2015, as follows:

- $56,278 in repair and maintenance expenses (copier, $25,490; cleaning, $25,232; elevator, $3,755; air conditioning, $1,448; extermination, $353).
- $55,446 in utility expenses.
- $3,990 in telephone expenses applicable to fiscal year ended June 30, 2014.

We recommend that SED disallow $115,714, the amount allocated to the cost-based programs.

Other Matters Warranting SED's Attention

Parsons' Financial Condition

The RCM, Section I.3.C., states that, in order to be considered fiscally viable, a provider's balance sheet should show a positive fund balance or net assets, an acceptable current ratio (current assets divided by current liabilities) of 1:1 or greater, and sufficient working capital (current assets minus current liabilities) to demonstrate solvency. Moreover, approved programs where fiscal viability is a concern will be required to submit a fiscal viability plan to SED.

We found that, during the three fiscal years ended June 30, 2015, Parsons' independent certified public accountant refrained from expressing opinions on Parsons' financial statements because the school was suffering recurring losses from operations and had a net capital deficiency that raised substantial doubt about its ability to continue as a going concern. During this same period, Parsons received loans from its landlord, its former Executive Director, and North Side to fund its operations; paid UI contributions late, thus incurring increased contribution rates; and accrued and claimed certain expenses without evidence that the expenses were paid. For example, on April 12, 2014, Parsons made a UI payment of $23,000 to DOL. According to DOL, the payment was applied to contributions that were due in 2004 and 2007, respectively.

We also noted that Parsons had not submitted any fiscal viability plans to SED. We recommend that SED monitor Parsons' operations and request fiscal viability plans, if warranted.

Recommendations

To SED:

1. Review the recommended disallowances resulting from our audit and make the appropriate adjustments to Parsons' CFRs and tuition reimbursement rates, as warranted.
2. Work with Parsons officials to ensure their compliance with the provisions of the RCM and the CFR Manual.
3. Monitor Parsons' operations and request fiscal viability plans, if warranted.

To Parsons:

4. Ensure that all costs reported on future CFRs comply with the requirements in the RCM and the CFR Manual.

Audit Scope, Objective, and Methodology

The objective of our audit was to determine whether the costs reported by Parsons on its CFRs were reasonable, necessary, directly related to the special education program, and sufficiently documented, pursuant to SED guidelines. The audit focused primarily on expenses claimed on Parsons' CFR for the fiscal year ended June 30, 2015, and included certain expenses claimed on its CFRs for the two fiscal years ended June 30, 2014.

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

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.

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 draft copies of this report to SED and Parsons officials for their review and comments. Their comments were considered in preparing this final report and are included at the end of it. In their response, SED officials agreed with our recommendations and indicated that they will take steps to address them. Parsons officials primarily attributed our recommended disallowances to decisions made by the former Executive Director for the first two years of our audit scope and generally disagreed with the remaining disallowances. Our responses to certain Parsons comments are embedded within Parsons' response. Parsons officials also included a set of attachments with their response. Those attachments, except for Attachment A, are not included in this report. However, they have been retained on file at the Office of the State Comptroller.

Within 180 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the 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 where recommendations were not implemented, the reasons why.

Exhibit

Parsons Preschool
Summary of Submitted and Disallowed Costs
for the 2012-13, 2013-14, and 2014-15 Fiscal Years

Program Costs	Amount per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services				
Direct Care	$8,251,370	$748,283	$7,503,087	A-D
Agency Administration	939,758	86,305	853,453	A-D
Total Personal Services	**$9,191,128**	**$834,588**	**$8,356,540**	
Other Than Personal Services				
Direct Care	$2,418,126	$798,629	$1,619,497	B,E-K
Agency Administration	633,215	149,143	484,072	B,E-K
Total Other Than Personal Services	**$3,051,341**	**$947,772**	**$2,103,569**	
Total Program Costs	**$12,242,469**	**$1,782,360**	**$10,460,109**	

Notes to Exhibit

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

A. Section I.10 - Defines a reasonable cost, if in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost. In determining reasonableness of a given cost, consideration shall be given to significant deviations from the established practices of the entity or similar entities that may unjustifiably increase the cost of the approved program.

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

C. Section II.13.A.12 - Compensation paid to employees for their lunch period is not reimbursable.

D. Section II.21 - Costs resulting from violations of or failure by the entity to comply with federal, State, and or local laws and regulations are not reimbursable.

E. Section II.41.B.4 (FY 2015) - Costs incurred in a less-than-arm's length lease of real property transactions shall be reimbursed based on owner's actual cost or fair market value, whichever is less.

F. Section II.59.D.3 - Use of privately owned vehicles for program business by employees is reimbursable, provided such use is documented and necessary.

G. Section III.1.C.2 - Adequate documentation includes, but is not limited to, the consultant's resume and 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 that indicate the specific services actually provided and, for each service, the date(s), number of hours provided, fee per hour, and total amount charged.

H. Section III.1.M.1 - Any expenditure that cannot be charged to a specific program must be allocated across all programs and/or entities benefited by the expenditure.

I. 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.

J. Section II.41.B.2 - Occupancy costs are based on actual documented rental charges, supported by bills, vouchers, etc. Donated rent is not reimbursable.

K. Section II.41.B.5 (FY 2013) - Costs incurred in less-than-arm's-length lease of real property transactions shall be reimbursed based on owner's actual cost or fair market value, whichever is less.

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

October 31, 2019

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

Dear Mr. Sifontes:

The following is the New York State Education Department's (SED) response to the draft audit report, 2018-S-26, Psychotherapeutic Evaluational Programs, Inc. dba Parson Preschool (Parsons) - 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 Parson's CFRs 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 Parsons officials to ensure their compliance with the provisions in the RCM and the CFR Manual."

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the Parsons 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 Parsons 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.

Recommendation 3:

"Monitor Parsons' operations and request fiscal viability plans, if warranted."

We agree with this recommendation. SED will monitor Parsons' operations and will request them to submit a plan to the Department to address their fiscal viability, if warranted.

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

Sincerely,

Sharon Cates-Williams

Sharon Cates-Williams
Deputy Commissioner

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

Parsons Preschool PEP
Psychotherapeutic Evaluational Programs, Inc.
84-60 Parsons Boulevard • Jamaica • New York 11432 • tel(718)298-6161 • fax(718)298-6206

October 22, 2019

Kenrick Sifontes
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110State Street – 11th Floor
Albany, NY 12236-0001

Re: Response to Final Draft Audit Report 2018-S-26, Compliance with the Reimbursable Cost Manual, Psychotherapeutic Evaluational Programs, Inc.

Dear Mr. Sifontes:

On behalf of Psychotherapeutic Evaluational Programs, Inc. dba Parsons Preschool ("PPS"), the following is the agency's response to the final draft audit findings with respect to the three school years ended June 30, 2015.

Background

PPS is a New York City-based for-profit organization approved by the State Education Department ("SED") to provide full-day Special Class ("SC"), full-day Special Class in an Integrated Setting ("SCIS"), preschool evaluation and one to one aide special education services to children with disabilities who are between the ages of three and five years. Regarding the integrated programs, PPS entered into a collaboration agreement with North Side School in school year 2013-14 and 2014-15 for the summer and ten-month school sessions.

To begin, PPS was incorporated as a for-profit organization on September 30, 1991. Prior to school year 2014-15, PPS operated under the direction of its former Executive Director and operated under a Less than Arm's length relationship ("LTAL") with BAPCO LLC at 84-60 Parsons Blvd, a separate entity which was also incorporated by its former Executive Director up until school year 2013-14. PPS never owned that property but did lease space at 84-60 Parsons Blvd to operate each of its approved programs.

During school years 2013-14 and 2014-15, PPS operated its preschool programs under a new lease agreement at 84-60 Parsons Blvd through an arm's length relationship ("ALR") with its landlord, 8460 Parsons LLC. PPS entered into an arm's length transaction with its new landlord who assumed ownership of the property located at 84-60 Parsons Blvd at the end of June 2013. Rental payments were then paid directly by PPS to the new landlord, 8460 Parsons LLC, under the oversight and full control of its newly appointed Executive Director beginning in school year 2014-15.

During school year 2013-14, NYSED advised PPS to replace its current Executive Director with a new interim Executive Director to manage the operation until school year 2014-15 when the Special Education Quality Assurance unit ("SEQA") audited and finalized PPS program reapproval status. The NYSED then authorized the removal of the Executive Director's interim status. Not long thereafter, The Office of Auditor General ("OAG") conducted a Limited Fiscal Scope Review of PPS's 2013-2014 school year (which is also part of the OSC's current audit scope) in order to ensure, among other things, that PPS's policies and procedures were in line with RCM guidelines under the direction of new leadership, including but not limited to, compensation, enrollment and other than personal services requirements. At the conclusion of the review, the OAG recommended various Corrective Action Plans, which were implemented by PPS to ensure fiscal compliance in subsequent school years.

Key Findings

The Office of State Comptroller ("OSC") conducted its audit scope for the three years ended June 30, 2015 based on the requirements set forth in the Reimbursable Cost Manual for Programs Receiving Funding Under Article 81 and/or Article 89 of the Education Law to Educate Students with Disabilities ("RCM") July 2012 through 2014 Edition and identified $1,789,023 in reported costs which did not comply with the RCM and/or CFR Claiming Manual. PPS does not agree with all of the findings.

While PPS agrees with several of the findings identified by the OSC during this audit scope, PPS disagrees with several findings that comply with the RCM and, therefore, should be deemed reimbursable. Moreover, the majority of the findings noted in this report are the direct result of the former Executive Director's unilateral actions and decisions during the two years ended June 30, 2014, whereas the OSC recommended nominal findings in the final draft audit report in school year 2014-15.

State Comptroller's Comment - Organizational changes do not exempt preschool special education providers from complying with the requirements in SED's RCM and CFR Manual.

In fact, many of the OSC's findings in school years 2012-13 and 2013-14 carried forward into school year 2014-15 due to the actions of the former Executive Director. Agreeing with this during the exit conference, the OSC indicated to PPS officials that a notation would be included in the final audit report, concluding that the findings identified solely in school year 2014-15 were nominal when compared with the prior two audit years ended June 30 2014, during the time when PPS was under the leadership and direction of its former Executive Director.

State Comptroller's Comment - We did not indicate to PPS officials that we would include the notation referenced in their response in the final audit report.

In order to ensure that these facts are accurately included in the final audit report, PPS has completed and included a findings chart analysis, which includes the following regarding each finding: the amount; the description; the school year; and the findings from school year 2012-13 and 2013-14 which carried forward and contributed to the findings broken down on the OSC's chart for the 2014-15 school year by former management in order to demonstrate how much more fiscally sound the organization became under its newmanagement team.

In addition, the findings identified by the OSC for the three years ending June 30, 2015 identify disallowances agreed and not agreed upon by PPS are included in our attachment and totaled the following **(see Attachment A):**

State Comptroller's Comment - We have attached Attachment A. All other attachments are on file at the Office of the State Comptroller.

- School year 2012-13: $799,903;
- School year 2013-14: $475,774; and
- School year 2014-15: $513,346.

Regarding the $513,346 in findings identified during school year 2014-15, the following were the outcomes:

- $34,089 or 5% resulting from retroactive payments not cashed by a limited group of employees;
- $179,466 resulting from overpayment of rent in school years 2013-14 and 2014-15, insufficient support from rent accrual in school year 2014-15 and insufficient support for (pension plan) consulting services in school year 2014-15, which PPS is disputing based on our response set forth below and the attached supporting documents; and
- $299,791 resulting from decisions made by the former Executive Director in the previous two school years, which then carried over into school year 2014-15.

State Comptroller's Comment - Organizational changes do not exempt preschool special education providers from complying with the requirements in SED's RCM and CFR Manual.

Audit Findings and Responses

As stated previously, PPS disagrees with findings identified by the OSC, which PPS believes should have been deemed reimbursable according to the criteria defined in the RCM but also concedes with several of the OSC's audit finding primarily from school years 2012-13 and 2013-14.

Ineligible Compensation Costs

PPS researched the mealtime finding totaling $612,855 and found that PPS had historically reported all of its staffing hours, including its thirty-minute meal time break because: (1) Prior to the July 2011 RCM Edition, the RCM did not address staff lunch period; (2) PPS had provided instructional lunch in the past and lunch taken by staff in the instructional lunch program was reimbursable under the July 2011 and July 2012 RCM Editions; and (3) Psychotherapeutic Evaluational Programs, Inc. also operated an Early Intervention program and Early Intervention staff was allowed thirty-minutes for lunch as part of their compensation but still included that time in its payroll records.

State Comptroller's Comment - The disallowance remains. The RCM applicable to the audit's scope states that compensation paid to employees for their lunch period is not reimbursable. Moreover, Early Intervention is not an SED program. Rather, it is a New York State Department of Health program and is not governed by the RCM.

In addition, prior to the July 2011 RCM Edition, none of the RCM editions included any language indicating how meal time hours reporting impacted reimbursement. The July 2011 and July 2012 RCM Editions provided that: "Compensation paid to an employee(s) for lunch, with the exception of providing services in an instructional lunch program, is not reimbursable." (see Section II, Cost Principles, Compensation, A. Salaries (12)). Consequently, PPS did not adjust the hours during the years of the audit scope.

Moreover, the Office of Auditor General ("OAG") conducted a Limited Scope Review of school year 2013-2014 (which is part of the OSC's current audit scope) in order to ensure, among other things, that PPS's policies and procedures were in line with current RCM guidelines, and during their review, did not find that PPS was out of compliance with the RCM with respect to how staff were compensated.

PPS would have easily complied with the RCM lunch reimbursement guideline and addressed OSC's preliminary finding by simply reducing the total hours worked by thirty minutes each day on its time and attendance reports and payroll reporting documentation given that the employees' total compensation would not have changed.

PPS has revised its Employee Manual to provide that mealtime will be unpaid and communicated to all staff that their compensation would be unaffected by this policy change. In addition, PPS already notified ADP to adjust its payroll documentation to reflect the five-hour reduction in hours worked for each employee for its biweekly payroll so there is no confusion with respect to mealtime requirement documentation.

Therefore, given that the salaries would have been unaffected by reducing the workday by thirty minutes, remain unchanged after moving forward with the reduction in hours on the ADP payroll reports and that PPS has updated the policy in its Manual, we believe that the finding should be removed from the report. Moreover, PPS relied upon NYSED SEQA and the OAG's reviews to restructure the organization during the transition from the former Executive Director to PPS's new management and neither review included any mention of non-reimbursable instructional lunch/mealtime matters.

Undocumented or Insufficiently Documented Expenses

June 2015 Accrued Rent for Parsons and Hillside Locations

For June 2015, PPS accrued $40,820 in rental expense for space occupied at 84-60 Parsons Blvd and accrued $14,560 in rental expense for space occupied at 231-10 Hillside Avenue. During the audit scope, PPS provided its lease agreements as supporting documentation for both sites, and each of these agreements contain language defining the payment terms, including the monthly amount and the applicable period.

In addition, PPS previously submitted supporting documentation to the OSC, which included check #1448 totaling $26,260, dated September 10, 2015; the memo line on the check was crossed out and corrected to June 2015 to reflect the correct month to which the rental payment should be applied. Additional supporting documentation included check #1523 totaling $26,260 dated November 12, 2015, applicable to rental payment for July 2015; the memo line was not crossed out because it provided the correct month to which the payment was applicable **(see Attachment B).** The fact that check #1523 (the next check PPS wrote for rental payment after check #1448) reflects the correct monthly rent payment (July 2015) supports PPS's position that the corrected date on check #1448 (June 2015) is accurate.

For 231-10 Hillside, PPS provided supporting documentation, including check #1449 totaling $15,192 dated September 10, 2015; the memo line on the check was crossed out and corrected to June 2015 to reflect the correct month to which the rental payment should be applied. Additional supporting documentation included check #1484, totaling $15,192 for the month of July 2015, which was not crossed out **(see Attachment B).** Although the general ledger detail included an incorrect rental accrual expense reporting totaling $14,560, the terms included in the lease agreement for June 1, 2015 totaled $15,142.

Based on the foregoing, PPS believes that the OSC should remove its recommendation to disallow $40,208 to the cost-based programs since the checks written for the month of June were corrected and the following sequential checks written for the month of July 2015 were documented correctly and not crossed out. For the remaining part of school year 2015, the general ledger included each of the check numbers for the other months which were audited by the OSC during the audit scope.

State Comptroller's Comment - We have no assurance that the payment was for an expense that pertained to the months in question.

Consultant Expense for Pension Plan

According to the final draft audit report, for fiscal years ending June 30, 2014 and June 30, 2015, the OSC identified consulting expenses totaling $18,000; the date of the consultant's agreement provided to the OSC for these services is April 5, 2016, however, the terms of the agreement apply to school year 2014-2015 CFR. Initially, the OSC mistakenly applied the agreement to fiscal year ended June 30, 2014 instead of applying it to June 30, 2015. However, based on PPS's previously submitted supporting documentation demonstrating that PPS filed its 2014-15 CFR on May 9, 2016, the agreement should have been applied to school year 2014-2015.

In addition, PPS's pension expense distribution to its employees totaling $55,000 was already deemed reimbursable and therefore the professional services totaling $18,000 should also be deemed reimbursable for the applicable school year (2014-15). PPS has reattached the supporting documentation **(see Attachment C)**, and for all of these reasons, PPS believes the recommended disallowance for consulting expenses totaling $17,440 from school year 2015 should be removed.

State Comptroller's Comment - The $18,000 in claimed expenses was disallowed because the expenses were included in the 2013-14 CFR but the work was performed in April 2016.

Overpayment of Rent

PPS signed a five-year lease agreement for 12,000 square feet of space at 84-60 Parsons Blvd. on February 18, 2013, and an amended lease on July 1, 2013 which effectively reduced the space occupied by PPS; the rental expense remained the same. However, the OSC incorrectly stated that PPS continued to pay rent as though it occupied the entire 12,000 square feet; that is inaccurate because the amendment included a detailed schematic, which included the areas of space PPS would occupy, which was approximately 9,000 square feet.

State Comptroller's Comment - We stand by our disallowance, as Parsons continued to pay the same amount for rent while occupying significantly less space.

To support that calculation, the amount of square footage actually occupied by PPS and prepared by the independent auditor included 1,815 square feet in the lower level area, (1,567 square feet comprised of the gym (742), staff lounge (264), elevator, computer lab, maintenance room and bathroom and lobby area totaling 809) bringing the total to 8,628; not 6,900.

Moreover, the lease agreement signed by PPS on February 18, 2013 was amended on July 1, 2013 because the new landlord became aware that he would have to incur significant additional expenses after February 18, 2013. As a result, the closing of the purchase of 84-60 Parsons Blvd by the new landlord occurred in June 2013 and the amendment took effect July 1, 2013. The additional expenses include:

- The landlord had to pay back property taxes totaled $548,715 based on the quarterly statement activity report as of February 22, 2013 (which was after the lease was signed) when the previous quarterly property taxes notification as of February 2012 totaled approximately $315,000 **(see Attachment D);**
- The landlord had to assume an annual tax bill of approximately $234,000 instead of $128,774 reported on the quarterly statement in February 2011 **(see Attachment D);** and
- The landlord had to invest additional money to renovate the interior of the existing cellar in order to increase the occupancy usage and allow the landlord to add another tenant to ensure fiscal viability **(see Attachment E).**

Prior to July 1, 2013, the COFO for the first floor and lower level area had a permissible occupancy usage of 150 preschool children. Because the landlord agreed to renovate the interior, the COFO now has a permissible occupancy usage of 269 preschool children **(see Attachment E).**

As a result of these circumstances and additional liabilities for the new landlord, the landlord did not close on the property until the end of June, which meant that the initial lease agreement executed on February 18, 2013 was no longer valid.

Since the former Executive Director of PPS was about to foreclose on that property, the new landlord proposed a solution that would be amenable to both parties and only agreed to move forward with purchasing the property under the following conditions:

- The landlord would pay all of the back taxes and assuming the annual taxes;
- The landlord would spend additional funds renovating and improving the entire building's interior to allow PPS to continue serving preschool segregated programs, share space with another entity (NSS) and form a collaboration for its integrated programs; **(see Attachment E)** and
- The original lease agreement from February 2013 would be amended. **(see Attachment E).**

Finally, as stated in PPS's previous response to the OSC's preliminary findings report, the new landlord was an ALR, and since the financial circumstances changed, so did the lease agreement.

Based on the foregoing, PPS's costs to continue its operation under the amended lease agreement complied with the requirements set forth in the RCM. Since that time, both the 2013-14 and 2014-15 CFR's have been reviewed by the RSU, and none of the data reported on each of those CFR's failed to meet the RCM requirements nor resulted in any rate methodology screen matters. Therefore, for all of these reasons, the recommended disallowance totaling $227,162 should be removed.

State Comptroller's Comment - Although Parsons states in its response that the landlord had assumed additional responsibilities and expenses in exchange for a reduction in the amount of space it occupied, such concessions were not set forth in writing.

Incorrectly Allocated Expenses

To begin, PPS agrees with the independent auditor's square footage allocation document but disagrees with the OSC's final calculation because the OSC failed to include the lower level square footage area reported and utilized by PPS totaling 1,815. The OSC incorrectly disregarded that square footage from its calculation and stated that PPS occupied 6,900 square feet rather than the correct amount totaling 8,715. Next, the OSC deducted 6,900, from 16,280 (the total square footage of the building which included the 1,815 the OSC chose to disregard) to calculate the square footage occupied by NSS solely for the purpose of reconciling with the independent auditor's square footage document. If the OSC is excluding the square footage area totaling 1,815 from PPS in its calculation, then it would have to do the same when calculating

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NSS's square footage usage to arrive at the correct total. To do otherwise would be unfair and unreasonable. For that reason, PPS disagrees with the OSC's incorrect allocation measurement, allocation percentage distributions and recommended disallowances for certain shared costs between PPS and NSS.

State Comptroller's Comment - This disallowance remains as we used the amount of space occupied by Parsons, consistent with the square footage agreed upon by North Side in its signed lease agreement with the landlord, to arrive at our cost allocations.

In addition, PPS provided the OSC with separate vendor cleaning invoices and cancelled checks **(see Attachment F),** but the OSC did not remove that cost off of its final draft audit report as it did when PPS proved that the two entities had separate invoices for their insurance coverages. PPS has attached them again and is also reattaching the correct square footage breakdown between PPS and NSS **(see Attachment G),** which accounts for 52.58% of space to PPS and 47.42% of space to NSS. For all of these reasons, the recommended disallowance totaling $25,431 of cleaning expenses should be removed and the recommended disallowance for shared expenses based on the correct square footage percentage distribution noted in Attachment G should be readjusted.

State Comptroller's Comment - The cancelled checks provided by Parsons show that North Side paid for the cleaning services. Evidence that Parsons reimbursed North Side for these expenses was not provided.

<u>Other Matters Warranting SED's Attention</u>

Fines/Penalties, UI Rate and UI Accrued Expenses

As OSC is aware, the former Executive Director operated the program during the audited years when PPS failed to comply with DOL guidelines, administered by the New York State Department of Labor, during a time period which extends back as far as 18 years ago. The former Executive Director's action significantly impacted PPS during the audit scope. However, as detailed throughout this response, new management has made substantial progress in resolving many of these issues and PPS has been able to lower its contribution rate from 9.9% to .525%.

Going Concern

PPS strongly disagrees that fiscal viability should be of critical concern. All of the government funding sources with which we have been dealing since the scope of the audit are well aware of the financial impact PPS' former Executive Director had on the operations of the agency. The current Executive Director has been working closely with these sources, including NYSED, to rectify that impact and to attain financial stability. In fact, PPS received a waiver approval in school year 2014-15, which increased its tuition rate, and as a result, PPS has demonstrated its fiscal viability through its growth from a $4 million operation in 2012-13 to an approximately $12 million operation in 2018-2019. To date, PPS has had no issue meeting its payroll, payroll taxes and unemployment insurance expenses. In fact, as stated previously, its unemployment contribution rate was reduced from 9.9% to less than .525% and its total compensation increased from $3,360,775 in 2012-13 to $6,530,805 in 2017-18.

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Given that the former Executive Director was still running the operations during the scope of the audited years with the exception of school year 2014-15, it is unfair for the OSC to reach this finding and conclusion knowing that substantial corrective measures have been implemented and repayments have been made since the former Executive Director's departure.

State Comptroller's Comment - This conclusion was based on the language in the 2014-2015 Certified Financial Statements, in which the CPA stated that "the company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern." The current Executive Director was in that position for the 2014-15 fiscal year.

Management's Use of Funds

Management's use of funds is acceptable, and PPS's stakeholders within the NYSED have recognized their support of PPS including the Special Education Quality Assurance Unit, NYC Regional Office, by expanding PPS's current program approval to serve more students in integrated settings and by increasing PPS's student enrollment of special education children in its segregated programs.

In addition, PPS's agency administration management expenses have reduced from over 16% in school year 2015 to 10% in school year 2016-17, to 9.26% in school year 2017-18, which would likely place PPS as having one of the lowest agency administration management percentages in its region, serving as another indicator of its prudent use of funds.

Response to OSC's Recommendations to SED and PPS

Although the OSC audit has claimed to have primarily focused on fiscal year ended 2015 and included certain expenses on its CFR's for the two fiscal years ended June 30, 2014, PPS believes it has provided sufficient information and attached supporting documentation to remove the following recommended disallowances totaling $179,466 in school year 2014-2015:

- Overpayment of rent - $121,818 (Also remove $105,359 in school year 2013-14)
- Accrued rental expense - $40,208
- Pension plan consulting - $17,440

Therefore, with the exception of the agreed-upon and recommended disallowance by the OSC totaling $34,089 relating to retro-activity payments, the remaining recommended disallowances in school year 2014-15 totaling $299,791 which were carried over from school years 2012-13 and 2013-14 include the following:

- Lunch period - $218,490
- Unemployment Insurance - $25,193
- Shared expenses with NSS - $56,108

Based on the foregoing, PPS believes its audit scope should be judged and measured by its stakeholders from the disallowances it reported only in school year 2014-15, which is when it operated under new management during the restructuring period through the assistance of the

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NYSED program and fiscal compliance departments; not judged by the two years ended June 30, 2014, when PPS was under the direction of former management and when $1,697,286 or 95% of the $1,789,023 in the findings report resulted from school years 2012-13 and 2013-14, and then carried forward to school year 2014-15, accounting for the majority of the audit findings. By doing so, the agency's results can be measured fairly through the corrective action steps it took to ensure costs reported on school year's 2014-15 and subsequent CFR's complied with the requirements in the RCM and the CFR Manual.

State Comptroller's Comment - Organizational changes do not exempt preschool special education providers from complying with the requirements in SED's RCM and CFR Manual.

During the three audit school years, PPS reported approximately $12.2 million in reimbursable costs for the cost-based programs, including $4,492,507 reported solely in school year 2014-15. PPS prepared a findings chart summary **(see Attachment A)**, which includes a disallowance measurement by each school year and excludes the carry-over audit findings found in school years 2012-13 and 2013-14 in order to determine a fair and reasonable audit outcome and the results are the following:

- School year 2012-13 – 20%;
- School year 2013-14 – 13%; and
- School year 2014-15 – .76%.

Thank you for your time and consideration.

Respectfully submitted,

Michelle Pascucci

Executive Director

ATTACHMENT A

Findings Analysis:												
Amount	**Description**	**School Year 2015**	**School Year 2014**	**School Year 2013**	**School Year 2015**	**School Year 2014**	**School Year 2013**	**Total 13-14-15 SY's**	**Total Variance**	**Former Mangement**	**Disagree Disallowance**	**Agree Disallowance**
612,855.00	Personal services associated with paid lunch periods	x	x	x	218,490.51	178,593.31	210,264.96	607,348.78	(5,506.22)	x		
61,952.00	Unemployment Insurance Contributions	x	x	x	25,192.85	24,416.21	15,364.70	64,973.76	3,021.76	x		
394,811.00	Undocumented rental expense not paid but accrued on CFR			x			394,811.00	394,811.00	0.00	x		
227,162.00	Overpayment of Rent/Occupancy matter re two entities 12,000 SQFT		x		121,817.58	105,358.92		227,176.50	14.50		x	
159,781.00	Insufficient Documented Personal Service Costs											
	$94,010 by the Dept of Taxation and Finance			x			94,010.00	94,010.00		x		
	$14,287 for pension plan services paid by Northside			x			14,287.00	14,287.00		x		
	$17,395 for pension plan services in SY 14 paid in SY 16		x			17,395.00		17,395.00		x		
	$34,089 for 10 checks not cashed resulting from retro tuition waiver	x			34,089.00			34,089.00				x
52,788.00	Repairs and Maintenance expenses paid by Northside			x			52,788.00	52,788.00	0.00	x		
49,781.00	Rent expense accrued but not paid by Parsons		x			49,781.00		49,781.00	0.00	x		
40,208.00	Accrued rent Parsons provided but OSC is claiming insufficient support	x			40,208.00			40,208.00	0.00		x	
19,623.00	No support provided for telephone, repairs and maint. and supplies				0.00	9,996.97	9,367.02	19,363.99	(259.01)	x		
25,669.00	No support provided for supplies		x			25,669.00		25,669.00	0.00	x		
17,440.00	Pension Plan consultant support	x			17,440.00			17,440.00	0.00		x	
5,991.00	Vehicle/gasoline costs		x			3,448.51	3,129.64	6,578.15	587.15	x		
4,330.00	Five cell phones		x	x		869.91	4,754.88	5,624.79	1,294.79	x		
116,632.00	Shared expenses between PPS and NSS	x	x		56,107.76	60,244.99		116,352.75	(279.25)	x	x	
1,789,023.00					513,345.69	475,773.82	798,777.20	1,787,896.72	(1,126.28)			
12,237,241.00	Reimbursable Costs				4,492,507.00	3,720,813.00	4,023,921.00					
14.62%	Recommended Disallowance percentages per Reimbursable Costs				0.76%	13%	20%					
	Percentage measurement in SY 14-15 includes retro finding.											

Contributors to Report

Executive Team

Tina Kim - *Deputy Comptroller*

Ken Shulman - *Assistant Comptroller*

Audit Team

Kenrick Sifontes - *Audit Director*

Michael Solomon - *Audit Manager*

Salvatore D'Amato - *Audit Supervisor*

Natalie Sherman - *Examiner-in-Charge*

Danhua Zhang - *Senior Examiner*

Tina Jiang - *Senior Examiner*

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

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