New York State Comptroller
THOMAS P. DiNAPOLI

Parsons Child and Family Center: Compliance With the Reimbursable Cost Manual

State Education Department

Report 2019-S-25 | April 2020

Spotlight on Education

Audit Highlights

Objective

To determine whether the costs reported by Parsons Child and Family Center (Parsons) on its Consolidated Fiscal Report (CFR) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual and the Consolidated Fiscal Reporting and Claiming Manual. The audit covered expenses reported on Parsons' CFR for the fiscal year ended June 30, 2015.

About the Program

Parsons is an SED-approved special education provider located in Albany County. Among other programs, Parsons provides preschool special education services to children with disabilities who are between three and five years of age. Parsons is reimbursed for these services through rates set by SED. The reimbursement rates are based on financial information, including costs, that Parsons reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. For the fiscal year ended June 30, 2015, Parsons reported approximately $1.2 million in reimbursable costs on its CFR for the Preschool Special Class – over 2.5 hours per day, Preschool Integrated Special Class – over 2.5 hours per day, and Preschool Integrated Special Class – 2.5 hours per day (collectively referred to as the Programs) that it operated.

Key Findings

For the fiscal year ended June 30, 2015, we identified $247,699 in ineligible costs that Parsons reported on its CFR for the Programs. The ineligible costs included:

- $188,149 in overstated expenses that resulted from Parsons misreporting revenue that should have been offset against program expenses on the correct CFR line.
- $46,843 in other than personal service costs, consisting of $26,002 in unsupported expenses, $15,425 in incorrectly allocated expenses, and $5,416 in other non-reimbursable costs such as working capital interest, food for staff, and parent agency costs.
- $12,707 in personal service costs, consisting of $11,674 in excessive salary and fringe benefit costs for certain employees, and $1,033 in executive compensation that was greater than the allowed regional median salary.

Key Recommendations

To SED:

- Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on Parsons' CFR and to Parsons' tuition reimbursement rates.

- Remind Parsons officials of the pertinent SED requirements that relate to the deficiencies we identified.

To Parsons:

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

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

April 24, 2020

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

Mr. William Gettman, Jr.
Chief Executive Officer
Parsons Child and Family Center
60 Academy Road
Albany, NY 12208

Dear Ms. Tahoe and Mr. Gettman:

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

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

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

Respectfully submitted,

Division of State Government Accountability

Contents

Glossary of Terms

Term	Description	Identifier
CFR	Consolidated Fiscal Report	*Key Term*
CFR Manual	Consolidated Fiscal Reporting and Claiming Manual	*Policy*
OTPS	Other than personal services	*Key Term*
Parsons	Parsons Child and Family Center	*Service Provider*
Programs	Preschool Special Class and Preschool Integrated Special Classes	*Key Term*
RCM	Reimbursable Cost Manual	*Policy*
SED	State Education Department	*Auditee*

Background

Parsons Child and Family Center (Parsons) is a not-for-profit organization with administrative offices located in Albany County and a school located in Schenectady County. Parsons is authorized by the State Education Department (SED) to provide, among other programs, preschool special education services to children with disabilities who are between three and five years of age. During our audit period, Parsons operated three rate-based preschool education programs: Preschool Special Class – over 2.5 hours per day, Preschool Integrated Special Class – over 2.5 hours per day, and Preschool Integrated Special Class – 2.5 hours per day (collectively referred to as the Programs). The Programs served 76 children with special education needs from Albany, Saratoga, and Schenectady counties during the fiscal year ended June 30, 2015.

The counties that use Parsons' preschool special education services pay tuition to Parsons using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition paid. SED sets the special education tuition rates based on financial information, including costs, reported by Parsons on the annual Consolidated Fiscal Report (CFR) that it submits to SED. Costs reported on the CFR must comply fully with the guidelines in SED's Reimbursable Cost Manual (RCM) regarding the eligibility of costs and documentation requirements, and must meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2015, Parsons reported approximately $1.2 million in reimbursable costs for the Programs on its CFR.

Audit Findings and Recommendations

According to the RCM, costs reported on the CFR are considered for reimbursement if they are reasonable, necessary, directly related to the special education programs, and sufficiently documented. For the fiscal year ended June 30, 2015, we identified $247,699 in costs that Parsons reported on its CFR that did not comply with SED's requirements for reimbursement. The ineligible costs included $188,149 in overstated expenses that resulted from a misreporting of offsetting revenues, $46,843 in other than personal service (OTPS) costs, and $12,707 in personal service costs. A summary of the ineligible costs is presented in the Exhibit at the end of this report.

Misreporting of Offsetting Revenues

According to the RCM, any funding received from a governmental agency or unit for a specific education program will be offset by SED against the appropriate program in the calculation of the tuition rate so that costs will not be reimbursed more than once by public funds. Parsons received $188,149 in revenue from Schenectady County for services provided to students who attended Parson's Preschool Integrated Special Classes. However, this revenue was reported on the incorrect CFR line, resulting in an understatement of revenue that should have been offset against the Integrated Programs' costs, creating the situation where costs were being reimbursed more than once by public funds.

Other Than Personal Service Costs

For the fiscal year ended June 30, 2015, we identified $46,843 in OTPS costs that Parsons reported on its CFR that were not allowable under SED's requirements.

Unsupported Expenses

According to the RCM, costs must be sufficiently documented to be reimbursable. We identified $26,002 in costs that were ineligible for reimbursement because Parsons was unable to provide sufficient supporting documentation. According to Parsons officials, such documentation had been destroyed when the basement of the building, where the records were stored, flooded. While officials did provide documentation to show that there was a flood in the basement of the building where financial and other records were stored, we could not distinguish whether supporting documentation was destroyed by the flood or simply missing. Consequently, we deemed the total costs of $26,002 ineligible for reimbursement.

Depreciation

According to the CFR Manual, when programs share the same geographical location, property-related costs, such as depreciation, must be allocated among the programs benefiting from those costs. The RCM also states that the allocation method, as well as the statistical basis used to calculate allocation percentages, must be documented and retained for each year. In reviewing Parsons' reconciliation, we found an increase to the overall amount of depreciation reported on its CFR for all programs it operates. Parsons officials indicated that when they transitioned to the fixed asset module in their new accounting software, all assets were reviewed and they made corrections to the amount of depreciation reported. These changes resulted in the addition of vehicle, equipment, and building/land improvement depreciation expenses that were not reported in the prior year. We asked for fixed asset support, showing a list of assets, in-service dates, cost to acquire, useful life, annual depreciation expense, and accumulated depreciation through fiscal year ended June 30, 2015. However, Parsons did not provide any of this information. In response to our preliminary audit report, Parsons provided a screenshot from its prior accounting software and a depreciation expense report, both of which list one asset: a building. However, the depreciable amounts identified on the two documents do not match. Lastly, when asked for Parsons' methodology for allocating depreciation expenses to the Programs, officials responded that they used an allocation tool within their accounting systems to align the reporting of depreciation on the CFR with the various depreciation categories by program. However, Parsons no longer uses that accounting system and does not have access to the allocation methodology used. Because we cannot determine the appropriateness of $22,346 in depreciation costs without the fixed asset basis, depreciation calculation support, and the methodology for Program allocation, we recommend a disallowance of that amount.

Staff Travel Costs

According to the RCM, in order for staff travel costs to be reimbursable, logs must be kept by each employee indicating the dates of travel, destination, purpose, mileage, and related costs. Overall, Parsons claimed $1,918 in staff travel costs for the Programs. Documentation was provided to support $170 of this amount. However, for the remaining $1,748, either the travel logs lacked sufficient information to determine the appropriateness of the travel or Parsons stated they had been destroyed in the basement flood.

Other Unsupported Expenses

We identified $1,908 in expenses for various expense categories on Parsons' CFR that did not have supporting documentation. Parsons officials indicated that these records were also destroyed in the flooding of the basement.

Allocations

According to the RCM, any expenditures that cannot be charged directly to a specific program must be allocated across all programs that benefited from the expenditure. In addition, entities operating programs must use allocation methods that are fair and reasonable. The RCM also states that 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. We reviewed Parsons' allocation methodologies and identified three categories of expenses, totaling $15,425, where the allocation was not in accordance with the RCM.

Child Program Account Allocation

Parsons operates both SED and non-SED programs and records expenses that benefit all of those programs equally in a Child Program Account. Parsons then allocates these expenses among all child services programs on its CFR. During our review, we not only determined Parsons' allocations contained mathematical errors but also identified expenses that were improperly charged directly to the Programs with no allocation to Parsons' other child services programs. We calculated that $12,998 in ineligible costs were allocated to the Programs. Parsons' officials were unable to explain the mathematical errors or support their allocation methodology for the Child Program Account.

Parent Agency Administration Allocation

As outlined in the CFR Manual, to ensure equity of distribution and provide uniformity in allocation of agency administration costs, SED requires the ratio-value method of allocation be used on the core CFR schedules. The ratio-value method uses operating costs as the basis for allocation. Agency administration expenses must be allocated to all programs based upon the ratio of agency administration costs to the service provider's total operating costs. Although Parsons allocated its agency administration costs to the Programs using ratio-value, the parent company's (Northern Rivers Family Services) allocation between Parsons and its other subsidiary (Northeast Parent and Child Society) was based on revenues. We recalculated this base amount using the two subsidiaries' total expenses and then applied ratio-value, and determined $1,876 in ineligible costs were allocated to the Programs.

Nursing Expenses Allocation

Similar to its child services expenses, Parsons recorded all its nursing supply costs in a specific cost center code. Here too, we determined that Parsons improperly allocated all its nursing supply costs to the Programs rather than across all programs that benefited from them. We recalculated the allocation based on each program's expenses and determined $551 in ineligible nursing supply costs were charged to the Programs.

Other Non-Reimbursable Costs

Working Capital Interest

According to the RCM, interest expense on working capital loans will not be reimbursed if the entity files its CFR more than 90 days after its due date. For July–June filers, such as Parsons, the CFR due date is November 1. Parsons submitted its 2014-15 CFR on March 8, 2016 – more than 90 days after the November 1 due date. Consequently, we determined that $1,711 in working capital interest was ineligible for reimbursement.

Non-Allowable Costs Omission

According to the CFR Manual, any non-allowable costs that have been included as an expense on the CFR must also be reported as non-allowable costs on the CFR. Parsons reported non-allowable expenses for actuarial and consulting costs for one of its Programs but failed to report $584 in similar non-allowable costs for the remaining two Programs.

Other Ineligible Costs

The RCM states that costs must be reasonable, necessary, directly related to the special education programs, and sufficiently documented. It also specifies certain expenses that are not reimbursable, such as food for staff, advertising costs for the purpose of recruiting students into programs or soliciting fundraising monies or donations, promotional items of any type, and gifts of any kind. We identified $1,764 in costs that were ineligible for reimbursement because they were not in compliance with these RCM requirements. These costs consisted of:

- $966 in staff training costs not related to the Programs and
- $798 for meals provided for staff.

In addition, we identified $86,374 in parent agency administration costs that were ineligible for reimbursement, including a strategic branding contract, staff gifts/awards, food/picnics for staff, charitable contributions, and uncollected funds fees. Applying ratio-value, we determined that $1,357 in ineligible parent agency administration costs were allocated to the Programs.

Personal Service Costs

For the fiscal year ended June 30, 2015, we identified $12,707 in personal service costs charged to the Programs that were not allowable under SED's requirements.

Employee Salary Costs

We identified one employee for whom Parsons charged more hours worked on its CFR than reported on the employee's time records. Parsons officials indicated these hours represented time the employee was working in a non-SED program as well as hours for which the employee was receiving workers' compensation. However, according to the RCM, compensation paid to an employee that serves to duplicate workers' compensation awards is not reimbursable. When presented with this finding in a preliminary report, Parsons officials indicated they would need to research how the employee was paid in order to provide a response; however, no such response was received. The overstatement in hours on the CFR resulted in $4,522 in ineligible compensation costs ($3,495 in salary and $1,027 in fringe benefits) charged to the Programs for this employee.

The RCM states that any expenditures that cannot be charged directly to a specific program must be allocated across all programs and/or entities that benefited from the expenditure. For example, salaries of employees who perform tasks for more than one program and/or entity must be allocated among all programs and/or entities for which they work. Parsons provided an allocation methodology showing that all Teacher's Aides have 78 percent of their hours allocated to the Programs and the remaining 22 percent allocated to Parsons' Day Care program. However, we identified one Teacher's Aide whose salary was charged entirely to the Programs. This overstatement in hours on the CFR resulted in $7,152 in ineligible compensation costs ($5,528 in salary and $1,624 in fringe benefits) charged to the Programs for this employee.

Median Salary Adjustment

According to the RCM, compensation (i.e., salaries plus fringe benefits) for an entity's staff whose function is that of Executive Director will be directly compared with the regional median compensation for comparable administration job titles of public school districts. Reimbursement shall not exceed the median compensation paid to comparable personnel in public schools for similar work and hours of employment in the region where the entity is located. Parsons compensated its Executive Director $65,744 in excess of the regional compensation limit for this position, of which $1,033 was charged to the Programs.

Recommendations

To SED:

1. Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on Parsons' CFR and to Parsons' tuition reimbursement rates.
2. Remind Parsons officials of the pertinent SED requirements that relate to the deficiencies we identified.

To Parsons:

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

Audit Scope, Objective, and Methodology

We audited the costs that Parsons reported on its CFR for the fiscal year ended June 30, 2015. The objective of our audit was to determine whether the reported costs were allowable, properly calculated, and adequately documented in accordance with applicable SED requirements.

To accomplish our objective and assess internal controls related to our objective, we reviewed the RCM that applied to the year we examined and the CFR Manual and related appendices. We evaluated Parsons' internal controls as they related to costs it reported on the CFR. We interviewed Parsons personnel to obtain an understanding of their financial practices for reporting costs on the CFR. We obtained accounting records and supporting information to assess whether a judgmental sample of costs claimed by Parsons on the CFR that were considered high risk (e.g., employee salary costs, OTPS allocations, parent agency costs) were properly calculated, adequately documented, and allowable. Based on our sample design, we cannot project our results to the population as a whole.

Statutory Requirements

Authority

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.

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

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. 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 functions do not affect our ability to conduct independent audits of program performance.

Reporting Requirements

We provided a draft copy of this report to SED and Parsons officials for their review and formal comment. We considered their comments in preparing this report and have included them in their entirety at the end of the report. In SED's response, officials agreed with the audit recommendations and indicated the actions they will take to address them. However, in their response, Parsons officials disagreed with most of the proposed disallowance. Our responses to certain Parsons comments are included in the report's State Comptroller's Comments.

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

Exhibit

Parsons Child and Family Center
Schedule of Submitted and Disallowed Program Costs
for the Fiscal Year Ended June 30, 2015

Program Costs	Amount per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services	$909,601	$12,707	$896,894	A, B, E, F, P-S
Other Than Personal Services	309,879	46,843	263,036	A-D, G-M, O, P, R-V
Total Program Costs	**$1,219,480**	**$59,550**	**$1,159,930**	
Offsetting Revenue	(146,228)	188,149*	(334,377)	N
Net Expenses	**$1,073,252**	**$247,699**	**$825,553**	

*The amount disallowed is an increase of both offsetting revenue and the amount of expenses disallowed, resulting in a decrease of total net expenses eligible for reimbursement.

Notes to Exhibit

The following Notes refer to specific sections of the RCM and the CFR Manual that we used as a basis for 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 the audit.

A. RCM Section I.9: Agency administration is defined as those expenses that are not directly related to a specific program but are attributable to the overall operation of the agency. These include: costs for the overall direction of the organization; costs for general record keeping, budget, and fiscal management; costs for public relations (non-fundraising); and costs for parent agency expenditures.

B. RCM Section II: Costs are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and sufficiently documented.

C. RCM Section II.3: Outreach activities, such as publications and other public relations endeavors that describe the services offered by approved private schools enabling them to better contribute to community educational objectives, are reimbursable. The intended outcome of these publications and public relations endeavors should be that of providing information and not for the purpose of recruiting students into programs or soliciting fundraising monies or donations. New York State places students without regard to advertising or public relations activities.

D. RCM Section II.3.A: Advertising costs for the purpose of recruiting students into programs or soliciting fundraising monies or donations are not reimbursable and remain non-allowable in the calculation of tuition rates. Promotional items of any type are not reimbursable.

E. RCM Section II.13.A.(4)(a): Compensation (i.e., salaries plus fringe benefits) for an entity's staff whose function is that of Executive Director, Assistant Executive Director, or Chief Financial Officer will be directly compared to the regional median compensation for comparable administration job titles of public school districts, as determined and published annually by SED's Basic Educational Data Systems. Reimbursement of employee compensation for these job titles shall not exceed the median compensation paid to comparable personnel in public schools for similar work and hours of employment in the region where the entity is located.

F. RCM Section II.13.A.(7): Compensation paid to an employee that serves to duplicate workers' compensation awards, jury fees, or disability claims are not reimbursable.

G. RCM Section II.16: Political and charitable contributions and donations made by the program are not reimbursable.

H. RCM Section II.20.A: Costs incurred for entertainment of officers or employees or for activities not related to the program, or any related items such as meals, lodging rentals, transportation, and gratuities, are not reimbursable.

I. RCM Section II.20.B: All personal expenses, such as personal travel expenses, laundry charges, beverage charges, gift certificates to staff and vendors, flowers or parties for staff, holiday parties, repairs on a personal vehicle, rental expenses for personal apartments, etc., are not reimbursable unless specified otherwise in the RCM.

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

K. RCM Section II.24: Gifts of any kind are non-reimbursable.

L. RCM Section II.28.D.(3): Interest expense on working capital loans for late filers of required financial information will be reimbursed on a prorated basis if submitted within 90 days of the respective due date. No interest expenses will be reimbursed for entities that file cost reports more than 90 days after the respective due date.

M. RCM Section II.30.C: Costs for food, beverages, entertainment, and other related costs for meetings, including board meetings, are not reimbursable.

N. RCM Section II.44.A.(2): Funding received from a governmental agency or unit for specific education programs or cost items will be offset by SED against the appropriate program costs in the calculation of tuition rates so that costs will not be reimbursed more than once by public funds.

O. RCM Section III.1.E: Logs must be kept by each employee indicating the dates of travel, destination, purpose, mileage, and related costs such as tolls, parking, and gasoline. Logs must have supervisory approval for the associated travel expense to be reimbursable.

P. RCM Section III.1.M.(1): Any expenditures that cannot be charged directly to a specific program must be allocated across all programs and/or entities benefited by the expenditure.

Q. RCM Section III.1.M.(1)(i): Salaries of employees who perform tasks for more than one program and/or entity must be allocated among all programs and/or entities for which they work.

R. RCM Section III.1.M.(2): Entities operating programs must use allocation methods that are fair and reasonable, as determined by the Commissioner of Education’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.

S. RCM Section III.1.M.(3): For CFR filers (except Office of Children and Family Services residential facilities), agency administration costs shall be allocated to all programs operated by the entity based on the ratio-value method of allocation.

T. CFR Manual Section 8, Page 8.12: Non-allowable costs are expenses that by regulation or State agency policy are not reimbursable. If any non-allowable costs have been included as an expense on the CFR, they must also be included on the line for adjustments/non-allowable costs on the respective CFR schedule (line 66 of Schedule CFR-1, line 8 of Schedule CFR-2, line 41 of Schedule CFR-3).

U. CFR Manual Section 15, Page 15.1: Upon calculating total agency administrative costs, agency administrative costs must be allocated to each applicable program. In order to ensure equity of distribution and to provide uniformity in allocation, SED requires the ratio-value method of allocation to be used on the core CFR schedules (CFR-1 through CFR-6). The ratio-value method uses operating costs as the basis for allocating agency administration costs.

V. CFR Manual Appendix I, Section 42.0, Page 42.3: Agency administration expenses must be allocated to programs operated by OASAS, OMH, OPWDD, and SED as well as shared programs and other programs (includes fundraising, special events, management services contracts provided to other entities, all programs funded by non-Consolidated Fiscal Reporting System participating State agencies, etc.) based upon the ratio of agency administration costs to the service provider's total operating costs.

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

DEPUTY COMMISSIONER
Office of Performance Improvement and Management Services
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April 16, 2020

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

Dear Mr. Reilly:

The following is the New York State Education Department's (SED) response to the draft audit report, 2019-S-25, Parsons Child and Family Center (Parsons) - Compliance With the Reimbursable Cost Manual.

Recommendation 1:

"Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on Parsons' CFR and to Parsons' 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, provided that SED will further consider the offsetting revenue finding following conversations with the County.

Recommendation 2:

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

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

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
Jerry Nestleroad
James Kampf

Agency Comments - Parsons Child and Family Center

NORTHERN RIVERS

March 13, 2020

Brian Reilly
Office of the State Comptroller
Division of State Government Accountability
110 State Street – 11th Floor
Albany, NY 12236-0001

Re: Parsons Child and Family Center: Compliance with the Reimbursable Cost Manual Report 2019-S-25 issued February 2020

Dear Mr. Reilly:

This letter is in response to findings contained in the draft audit report entitled *Parsons Child and Family Center: Compliance with the Reimbursable Cost Manual Report 2019-S-25 issued February 2020*. The letter includes Parsons Child and Family Center's response to certain findings contained in the report.

Misreporting of Offsetting Revenues

The draft audit report indicated that Parsons received $188,419 in revenue from Schenectady County for services provided to students but that the revenue was reported on the incorrect CFR line creating a situation where costs were reimbursed more than once by public funds.

We do not agree with the conclusion that Parsons costs were reimbursed more than once from public funds. The funding received from Schenectady County paid for supplemental preventive goods and services that are not covered by tuition. These include social work services, transportation, and snacks. FY 2014-15 was the first year this revenue and its associated expenses had to be reported on the CFR. Upon reviewing Appendix A-2, there was not an appropriate offsetting revenue line to appropriately capture this revenue as offsetting. We reported the revenue in line 90 (22130) Chapter 428 Revenue. During subsequent conversations with SED, we were advised by SED to report this revenue in Line 94 (22998) Other Revenue which is for regular, not offsetting revenue. This revenue was reviewed with SED during collaborative rate setting review and adjustments were made. Parsons further contends that because FY 2014-15 was a zero growth year, that no additional rate increases were provided to the agency by not having this revenue reported on an offsetting revenue line. Comment 1

Other than Personal Service Costs

Unsupported Expenses

The draft audit report indicated that at times, Parsons was unable to provide sufficient supporting documentation. During our opening conference and prior to any audit

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documentation request, Parsons notified auditors that all of Parsons' original financial documentation from Fiscal Year 2014-15 was in storage in the basement of a building that was flooded due to an act of vandalism in early 2019. The incident caused a main water pipe to burst, resulting in an accumulation of over seven feet of water in the basement. All records stored there were damaged to some extent, some irreparably. These documents were sent to a document recovery company in Rochester where some of these documents were able to be restored. During the audit, our agency sent staff to the document recovery company to sort through boxes of damaged records. We were able to recover the majority of documents requested by the auditors. Yet, some of the requested records were destroyed beyond recovery. Parsons incurred nearly $30,000 in expense to the document recovery company in addition to staff time to locate and review these damaged files. We also were able to contact vendors and obtain duplicate invoices for some requested records that were destroyed by the flood and we deployed staff to do that in as timely a manner as possible Comment 2

Depreciation

The draft audit report indicated that Parsons did not provide requested documentation (fixed asset support, showing a list of assets, in-service dates, costs to acquire, useful life, annual depreciation expense and accumulated depreciation through June 30, 2015) and could not properly demonstrate its method of the allocation of depreciation expenses.

We provided auditors with the schedule of assets and the total depreciation expense but was not able to provide the allocation methodology for each asset to each program due to a transition in software packages. Allocation of depreciation expenses were thoroughly reviewed and approved by our independent auditors during this time period. Comment 3

Staff Travel Costs

The draft audit report indicated that Parsons lacked sufficient information to demonstrate the appropriateness of some costs related to staff travel.

As noted above, detailed travel logs were damaged in the flood. Summary documentation from account systems we provided to auditors lacked detail to determine the appropriateness and reasonableness of the expense. Comment 2

Other Unsupported Expenses

The draft audit report indicated that Parsons lacked sufficient documentation to support the appropriateness of some expenses because the documentation was destroyed in the flood.

As noted above, the flood damaged the original financial documentation from FY 2014-15. Parsons worked diligently with the document recovery company to provide much of the documentation requested by the auditors. Comment 2

Allocations

Parent Agency Administrative Allocation

The draft audit report indicated that Parsons allocated its agency administrative costs between its affiliates based upon revenue, rather than costs, which OSC states is the standard.

Parsons contends that the CFR guidelines, although prescribing Agency Administration costs be allocated according to ratio value of expenses, does not require that standard for Parent Organization Charges. Parsons implemented a reasonable and consistent method of allocating Parent Organization Charges by revenue. This method was reviewed by our auditors during independent audit and is approved by FASB/GAAP guidelines.

In summary, our auditors have opined on our financial statements that the reasonable allocation of parent organization charges to each affiliate based on revenues of each affiliate is a reasonable and compliant methodology. Our auditors have verified that information, as required by Appendix - AA. All agency administrative charges have been appropriately allocated to each program, using Ratio Value Methods as prescribed by the CFR and RCM guidelines. Comment 4

Other Non-Reimbursable Costs

Working Capital Costs

The draft audit report indicated that Parsons submitted its CFR more than 90 days after the due date and as a result $1,711 in working capital interest was ineligible for reimbursement.

We were in fact late in filing due to transitions in our financial accounting systems and payroll system which took extra time to reconcile costs to our financial statements. We notified SED and received an extension. We would respectfully request, based on those extenuating circumstances and state oversight agency extension, that that disallowance is reconsidered. Comment 5

Other Ineligible Costs

The draft audit report indicated that Parsons reported expenses that were ineligible for reimbursement including those reported to training costs unrelated to the Programs being audited, meals provided for staff, and certain parent agency administrative costs allocated to all programs.

While we agree there were some expenses reported in parent agency administration which SED does not allow, other funding agencies that represent a larger portion of the agency's expenses do allow for certain branding activities and staff recognition activities. We follow a consistent basis of allocation of these costs based on CFR guidelines. Comment 6

Personal Service Costs

Median Salary Adjustment

The draft audit report indicated that Parsons' Executive Director's compensation exceeded the regional median compensation for comparable personnel in public schools.

During FY 2014-15, Northern Rivers employed two executive directors, each responsible for leading three non-profit agencies, Northern Rivers Family Services, Parsons Child and Family Center, and Northeast Parent & Child Society. Executive director compensation was allocated among the three agencies in accordance with methodology reviewed and approved by our independent auditors. In accordance with EO 38 guidelines, Parsons sought a waiver for executive compensation from the state agency from which it received the most state funding, the Office of Mental Health. OMH officials advised us that a wavier was not necessary as the

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executive compensation was allocated among three agencies. Parsons provided a copy of this correspondence to the auditors.

Comment 7

In conclusion, we want to thank the Office of the State Comptroller's staff for their professionalism and collaboration during this audit. We appreciate the opportunity to respond to the audit findings. Parsons continues to collaborate closely with SED to ensure compliance with its requirements.

If you have any questions please feel free to contact us.

Sincerely,

William T. Gettman, Jr.
Chief Executive Officer, Northern Rivers Family of Services

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State Comptroller's Comments

1. Although Parsons officials claim that the funding received from Schenectady County paid for supplemental goods and services that were not covered by tuition, they never provided any documentation to substantiate this claim. Further, the RCM explicitly states that funding received from a governmental agency for a specific education program should be offset against the corresponding program's expenses so that costs will not be reimbursed more than once by public funds. In its response, Parsons indicated that there was not a revenue line to appropriately capture this revenue as offsetting. Parsons ultimately reported this revenue on an incorrect line on the CFR. Consequently, revenues were understated by $188,149, causing costs to be reimbursed more than once by public funds.
2. We acknowledge that there was a flood, which resulted in damage to records stored in the affected area. However, the audit team had no way to discern whether the supporting documentation was destroyed in this flood or whether Parsons simply could not provide it. As such, we stand by our disallowances pertaining to unsupported costs ($26,002), staff travel costs ($1,748), and other unsupported costs ($1,908).
3. Contrary to Parsons' assertions, the schedule of assets provided to us was unclear as to the acquisition price and in-service date of the asset being depreciated. Therefore, it was impossible for the audit team to verify the appropriateness of depreciation expense regardless of the methodology used by Parsons. We maintain that the $22,346 in depreciation expense is not reimbursable.
4. Entities operating programs must use allocation methods that are fair and reasonable. In addition, Appendix I of the CFR Manual specifically states that agency administration is to be allocated based on ratio-value, which uses operating costs as the basis for allocation. Further, when the RCM is silent on the treatment of a cost, it should not be assumed that such costs are reimbursable or that a method of allocation is deemed appropriate without written approval. All of these requirements must be considered in reporting costs on the CFR. While parent agency administration costs were properly allocated to the Programs using ratio-value, the base number of those parent agency costs were allocated among subsidiaries using percentage of revenues, not costs, which resulted in an increased amount of costs being allocated to the Programs. Additionally, Parsons' allocations contained mathematical errors and in some instances costs were improperly charged directly to the Programs with no allocations to Parsons' other child services programs. For these reasons, we maintain the $15,425 in allocations was not in accordance with the provisions of the RCM and the CFR Manual.
5. According to the RCM, interest expense on working capital loans will not be reimbursed if the entity files its CFR more than 90 days after its due date. Parsons officials acknowledged that they were late in filing their CFR. Although Parsons officials indicated that they received an extension from SED to file the CFR, they did not have anything in writing to support this contention. Absent an approved extension, we maintain the $1,711 in working capital interest is not eligible for reimbursement. Additionally, as mentioned

in the report, we shared this report with SED officials and they did not respond that an extension was provided.

6. The RCM specifies that certain expenses are not reimbursable, such as food for staff, advertising costs for the purpose of recruiting students into programs or soliciting fundraising monies or donations, promotional items of any type, and gifts of any kind. In its response, Parsons acknowledged there were some expenses reported in parent agency administration that SED does not allow. We maintain that the $1,764 in expenses were ineligible for reimbursement because they did not comply with the RCM requirements.

7. According to the RCM, compensation for an entity's Executive Director shall not exceed the median compensation paid to comparable personnel in public schools for similar work in the region where the entity is located. New York Executive Order 38 places limits on executive compensation for certain individuals/entities that receive State funds. Although Parsons sought and received a waiver on executive compensation from the Office of Mental Health, this waiver has no bearing on SED and its RCM requirements. As such, we maintain that the $1,033 in median salary adjustments is appropriate.

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