New York State Comptroller
THOMAS P. DiNAPOLI

SteppingStone Day School, Inc. – Compliance With the Reimbursable Cost Manual

State Education Department

Report 2020-S-23 | **December 2020**

Spotlight on Education

Audit Highlights

Objective

To determine whether the costs reported by SteppingStone Day School, Inc. (SteppingStone) on its Consolidated Fiscal Reports (CFRs) were reasonable, necessary, directly related to the special education programs, 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 SteppingStone's CFR for the fiscal year ended June 30, 2018 and certain expenses claimed on its CFRs for the two fiscal years ended June 30, 2017.

About the Program

SteppingStone is a New York City-based not-for-profit organization authorized by SED to provide preschool special education services to children with disabilities who are between the ages of three and five years. During our audit period, SteppingStone operated preschool special education full-day Special Class and full-day Special Class in an Integrated Setting programs. During the two fiscal years ended June 30, 2017, SteppingStone also operated a preschool special education half-day Special Class program. For the purposes of this report, these programs are collectively referred to as the SED preschool cost-based programs. SteppingStone also operated three other SED-approved preschool special education programs: Evaluations, Related Services, and 1:1 Aides. However, payments for services under these programs are based on fixed fees. SteppingStone operated several other programs, including a Universal Pre-Kindergarten funded by the New York City Department of Education (DOE) and, at its Queens location, a private-pay-funded day care service. However, SteppingStone officials operated these programs at periods beyond the SED preschool cost-based programs' service hours. For example, for a fee, parents/guardians of children enrolled at SteppingStone's Queens location can elect to drop off their children as early as 7:30 a.m. and/or request a late-pickup day care service up until 5:00 p.m. In contrast, SteppingStone operated the SED preschool cost-based programs for five and one-half hours for full-day programs (five program hours and a one-half-hour non-instructional lunch period) or for two and one-half hours for half-day programs.

During the 2017-18 school year, SteppingStone served approximately 582 students with disabilities at its two locations: one in Queens and the other in the Bronx. The DOE refers students to SteppingStone based on clinical evaluations, and pays for SteppingStone's services using rates established by SED. The rates are based on the financial information that SteppingStone reports to SED on its annual CFRs. SED reimburses the DOE 59.5 percent of the statutory rate it pays to SteppingStone. For the three fiscal years ended June 30, 2018, SteppingStone reported approximately $46.3 million in reimbursable costs for the SED preschool cost-based programs.

Key Findings

For the three fiscal years ended June 30, 2018, we identified $562,609 in reported costs that did not comply with the requirements in the RCM and the CFR Manual, including:

- $319,896 in excessive day care and substitute teacher compensation expenses that were allocated to the SED preschool cost-based programs;
- $91,696 in ineligible costs, including $79,659 in excess mortgage interest expenses and $12,037 in unallowable expenses;

- $84,453 in overallocated other than personal service expenses, including $50,848 in supplies, $8,991 in repairs and maintenance, $8,874 in mortgage interest, $6,663 in depreciation, $6,432 in utilities, and $2,645 in rent;
- $44,706 in non-reimbursable and unsupported compensation expenses;
- $12,469 in unreported offsetting revenue, resulting in an overstatement of SteppingStone's reimbursable expenses; and
- $9,389 in excessive compensation paid to the Marketing Director, who also served as President of SteppingStone's Board of Directors.

Key Recommendations

To SED:

- Review the recommended disallowances identified by our audit and make the necessary adjustments to the costs reported on SteppingStone's CFRs and to SteppingStone's tuition reimbursement rates, as warranted.
- Remind SteppingStone officials of the pertinent SED requirements that relate to the deficiencies we identified.

To SteppingStone:

- 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

December 31, 2020

Dr. Betty A. Rosa
Interim Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Ms. Suzanne Martin
Executive Director
SteppingStone Day School, Inc.
77-40 Vleigh Place
Kew Gardens Hills, NY 11367

Dear Dr. Rosa and Ms. Martin:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for 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 expenses submitted by the Steppingstone Day School, Inc. to the State Education Department for the purposes of establishing tuition reimbursement rates. This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 4410-c of the State Education Law.

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

Respectfully submitted,

Division of State Government Accountability

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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*
FTE	Full-time equivalent	*Key Term*
OTPS	Other than personal services	*Key Term*
RCM	Reimbursable Cost Manual	*Policy*
SED	State Education Department	*Auditee*
SteppingStone	SteppingStone Day School, Inc.	*Service Provider*
UPK	Universal Pre-Kindergarten	*Key Term*

Background

SteppingStone Day School, Inc. (SteppingStone) is a New York City-based not-for-profit organization approved by the State Education Department (SED) to provide preschool full-day Special Class (Program 9100) and preschool full-day Special Class in an Integrated Setting (Program 9160) services to children with disabilities between the ages of three and five years. During the two fiscal years ended June 30, 2017, SED also approved SteppingStone to provide half-day Special Class (Program 9115) services. For the purpose of this report, these programs are collectively referred to as the SED preschool cost-based programs. During the fiscal year ended June 30, 2018, SteppingStone served approximately 582 students with disabilities at two locations: one in Queens and the other in the Bronx.

In addition to the SED preschool cost-based programs, SteppingStone operated three other SED-approved programs: Evaluations (Program 9190), Related Services (Program 9200), and 1:1 Aides (Program 9230). However, payments for services under these programs are based on fixed fees, as opposed to the cost-based rates established through financial information reported on Consolidated Fiscal Reports (CFRs). During the three fiscal years ended June 30, 2018, SteppingStone also operated a Universal Pre-Kindergarten (UPK) funded by the New York City Department of Education (DOE) and a private-pay-funded day care service. However, SteppingStone officials operated these programs at periods beyond the SED preschool cost-based programs' service hours. For example, parents/guardians of children enrolled at SteppingStone's Queens location can elect to drop off their children as early as 7:30 a.m. and/or request a late-pickup day care service up until 5:00 p.m. Likewise, SteppingStone's UPK is in session for 6-hour-and-20-minute periods. In contrast, SteppingStone's officials operate the SED preschool cost-based programs for five and one-half hours (five program hours and a one-half-hour non-instructional lunch period) for full-day programs or for two and one-half hours for half-day programs.

The DOE refers students to SteppingStone based on clinical evaluations and pays for SteppingStone's services using rates established by SED. The rates are based on the financial information that SteppingStone reports to SED on its annual CFRs. To qualify for reimbursement, SteppingStone's expenses must comply with the criteria 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 related to multiple programs and entities. SED reimburses the DOE 59.5 percent of the statutory rate, which DOE pays SteppingStone.

For the three fiscal years ended June 30, 2018, SteppingStone reported approximately $46.3 million in reimbursable costs for the SED preschool cost-based programs. This audit focused primarily on expenses that SteppingStone claimed on its CFR for fiscal year ended June 30, 2018, but also included certain expenses that SteppingStone claimed on its CFRs for the two fiscal years ended June 30, 2017.

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, 2018, we identified $562,609 in reported costs that did not comply with SED's requirements for reimbursement. These ineligible costs include $373,991 in personal service costs, $176,149 in other than personal service (OTPS) costs and $12,469 in unreported offsetting revenue (see Exhibit).

Strong internal controls are critical to the overall health of an organization. These controls help to safeguard assets and ensure reliable financial reporting and compliance with regulatory requirements. We attributed the disallowances detailed in this report to weaknesses in SteppingStone's internal controls over its compliance with SED's guidelines.

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, 2018, SteppingStone reported approximately $37.2 million in personal service costs for the SED preschool cost-based programs. To determine whether these expenses complied with SED's requirements for reimbursement, we judgmentally selected a sample totaling approximately $14.8 million in personal service expenses. We identified $373,991 in personal service costs that did not comply with the RCM's requirements for reimbursement. SED, pursuant to a desk review, previously disallowed some of these costs.

Excessive Allocation

According to the RCM, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. 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. Further, the CFR Manual instructs filers to report all costs of day care in excess of the approved duration of the integrated program separately from the SED preschool cost-based programs. For example, if the day care program operates from 7:00 a.m. to 5:00 p.m. (ten hours) and the integrated program operates from 9:00 a.m. to 2:00 p.m. (five hours), providers should report the costs of the five hours of day care operation in Program Code 9164. In addition, the RCM instructs providers to report all 1:1 aide costs (salaries, fringe benefits of the aide and allocated direct and indirect costs) in a separate cost center on the providers' financial reports. Additionally, the RCM states that direct care student-to-staff ratios should not exceed the approved staffing levels supported by SED's program approval letter, and any net excess of staff will not be included as part of the programs' reimbursable costs. We identified $319,896 in allocated expenses that did not comply with SED's reimbursement requirements, as discussed next.

Day Care Allocation

We reviewed SteppingStone's general ledgers, personnel files (including staff responsibilities), allocation methodologies, daily coverage logs, program hours, and fiscal year 2017-18 time records in support of allocations made for 27 shared employees. We determined that SteppingStone officials did not allocate costs related to 12 shared employees to the non-SED preschool cost-based programs. To determine a fair and reasonable allocation methodology, we attempted to use a full-time-equivalent (FTE) allocation methodology; however, SteppingStone officials did not maintain adequate records. In the absence of this information, we used the program-hours methodology outlined in the CFR Manual. We determined that SteppingStone officials overallocated expenses to the SED preschool cost-based programs by $188,584.

SteppingStone officials disagreed with our allocation methodology calculations, and advised us that the length of the employee's workday should be used as opposed to the actual number of program hours. We disagree. The guidance in the CFR Manual recommends that program hours of operation be used in the allocation calculation. We recommend SED disallow $188,584 in expenses that were overallocated to the SED preschool cost-based programs.

Substitute Teacher Allocation

For the three fiscal years ended June 30, 2018, SteppingStone claimed $3,845,378 ($3,168,873 in salaries and $676,505 in fringe benefits) in compensation costs for 121 employees who were reported as teacher assistants, teacher coverage/floating, and teacher aide/assistant substitutes to the SED preschool cost-based program on its CFR.

To determine whether SteppingStone properly reported these costs, we interviewed officials and reviewed accounting and supporting program records indicating how employees' salaries were allocated among its programs. In addition, we reviewed SteppingStone's program approval letter, which indicated its approved student-to-staff ratios. SteppingStone officials could not provide support for the reported compensation of 60 of the sampled 121 employees. Consequently, we recommend that SED disallow $131,312 in compensation costs ($108,429 in salaries and $22,883 in fringe benefits) that were incorrectly charged to the SED preschool cost-based programs.

SteppingStone officials disagreed with our findings and advised us they provided adequate supporting documentation. SteppingStone officials also claimed that these substitute teachers worked for the SED preschool cost-based programs. However, our review of supporting documentation found that employees charged to the SED preschool cost-based programs worked for the 1:1 Aide program and/or there was no evidence that they worked for the SED preschool cost-based programs.

Non-Reimbursable/Unsupported Compensation

According to the RCM, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. Additionally, the RCM states that overtime compensation for salaried direct care staff for extracurricular activities, such as coaching stipends, extra period coverage, and plays, are reimbursable when documented in the employee's contract and if it does not exceed local school district compensation for such activities. Overtime compensation for all others is not reimbursable.

We determined that officials incorrectly reported $44,706 in compensation that did not comply with the RCM's guidelines, as follows:

- $39,706 in non-reimbursable overtime compensation expenses because compensation for these additional services was not included in the employees' contract;
- $4,792 in unsupported compensation expenses ($4,719 in payroll expenses, $73 in fringe benefit expenses); and
- $208 in compensation expenses related to the Evaluations program.

We recommend that SED disallow $44,706 in compensation expenses that did not comply with the RCM's requirements.

SteppingStone officials disagreed with our recommended disallowance regarding non-reimbursable overtime. They advised us that the employees performed additional bilingual/translation services outside of the standard workday/week, and that the RCM contemplates reimbursement of such additional program-related activities governing overtime compensation. We disagree. The RCM clearly states that additional compensation beyond an employee's salary must be outlined in their contract. Moreover, the employee's contract already included translation services as part of their regular duties during our audit period. SteppingStone officials also claimed that it was more cost effective to perform translation services; however, they could not provide evidence to support this statement.

Excessive Compensation

According to the RCM, compensation to all individuals who have a financial interest in the program, including shareholders, trustees, board members, and officers who are also program employees, must be commensurate to actual services provided as appropriately qualified program employees. Compensation shall not exceed the average regional levels paid by similar private providers to comparably qualified and appropriately certified personnel for similar work and hours of employment. Any compensation determined to be excessive will not be reimbursed in the tuition rate. For all individuals, compensation for board service or trustee service is not reimbursable. For example, a full-time program employee may serve on the board of directors of the agency. However, compensation for the employee's personal service to the program will be allowed in the computation of the tuition rate if the board member abstains from any discussion or vote on matters related to his/her compensation and the board minutes reflect this.

During the three fiscal years ended June 30, 2018, SteppingStone officials reported $290,714 in compensation to its Marketing Director, who concurrently served as the President of SteppingStone's Board of Directors. However, SteppingStone officials could not show this individual abstained from discussing or voting on matters related to her compensation. We reviewed the salary reported by similar CFR filers in the region and determined that SteppingStone's reported compensation for this individual exceeded the region's average by a total of $9,389. We recommend that SED disallow the $9,389 in excessive compensation.

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, 2018, SteppingStone reported approximately $9.1 million in OTPS expenses for its SED preschool cost-based programs. To determine whether these expenses complied with SED's requirements for reimbursement, we judgmentally selected a sample totaling approximately $4 million in OTPS expenses. We identified $176,149 of these expenses that did not comply with SED's reimbursement requirements.

Overallocated Costs

According to the RCM, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. Any expenditures that cannot be charged directly to a specific program must be allocated across all programs and/or entities benefited by the expenditure. In addition, entities must use allocation methods that are fair and reasonable, and allocation percentages should be reviewed and adjusted on an annual basis, if necessary. The CFR Manual also instructs providers to report all costs of day care in excess of the approved duration of its SED preschool cost-based programs to a separate cost center.

During the three fiscal years ended June 30, 2018, SteppingStone reported $4,536,715 in shared facility (e.g., depreciation, repairs and maintenance) and supply expenses to the SED preschool cost-based programs. However, we determined that officials did not allocate the applicable share of these costs to the non-SED preschool cost-based programs. To determine a fair and reasonable allocation of shared expenses, we used square foot utilization for the facility costs and the ratio value method for supplies and materials – allocation methods approved by SED. We determined that SteppingStone officials overallocated $84,453 in shared costs to the SED preschool cost-based programs, as follows:

- $50,848 in supply expenses;
- $8,991 in repair and maintenance expenses;
- $8,874 in mortgage interest expenses;
- $6,663 in depreciation expenses;
- $6,432 in utility expenses; and
- $2,645 in rent expenses.

We recommend that SED disallow the $84,453 in expenses that were overallocated to the SED preschool cost-based programs.

Ineligible Costs

According to the RCM, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. Additionally, arm's-length interest expense on capital indebtedness and working capital is reimbursable provided the interest rate of the lending institution at the time the loan was made is not in excess of the prime rate plus 1 percent. Interest expense will be reimbursed on loans in excess of the prime rate plus 1 percent in cases where the entity can establish that it was unable to secure a rate of prime plus 1 percent or lower despite its good faith efforts to do so. For capital indebtedness, an entity shall demonstrate good faith efforts through documentation supporting attempts every five years to obtain the most competitive rate available by requesting quotes from at least three lending institutions. In addition, loan procurement fees are not reimbursable. Debt for capital expenditures including capital projects, operations, equipment purchases, etc. shall be used only when financing from current revenue sources is not available, unless otherwise approved by the Commissioner's designated representative for fiscal issues. Borrowing transactions shall be evaluated on an overall level of reasonableness as they relate to interest costs and fees paid for professional services. The RCM also states that 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. In addition, travel expenses of spouses, family members, or any non-employee are not reimbursable. Costs resulting from violations of or failure by the entity to comply with federal, State, and/or local laws and regulations are not reimbursable. We identified $91,696 in reported costs that were ineligible for reimbursement because they did not comply with the requirements in RCM.

Excess Mortgage Interest Expense

During the three fiscal years ended June 30, 2018, SteppingStone reported $388,254 in mortgage interest expense. The mortgage interest was associated with capital debts acquired without obtaining competitive rates or SED's written approval, and for which the interest rate exceeded reimbursable levels (prime interest rate plus

1 percent) at the time of the mortgage's acquisition. As a result, we recommend that SED disallow $79,659 of the reported mortgage interest expense that did not comply with SED's reimbursement guidelines.

Unallowable Expense

We identified $12,037 in reported costs that were unallowable because they did not comply with reimbursable cost guidelines. These include:

- $6,999 in consultant services for SteppingStone's Evaluations program;
- $2,064 in rent, repair and maintenance, and supply expenses for which officials could not provide supporting records and details;
- $1,770 in non-compliant advertisements;
- $699 in commuting expenses associated with a consultant;
- $258 in fingerprint reimbursements made to one of SteppingStone's non-cost-based program staff members; and
- $247 in New York City Department of Buildings fines and violations.

We recommend that SED disallow the $12,037 in unallowable expenses charged to the SED preschool cost-based programs.

Unreported Offsetting Revenue

According to the RCM, funding received from a government 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 with public funds. During our audit period, SteppingStone recognized $1,727,436 in DOE revenue for certain children enrolled in its SED preschool cost-based integrated classrooms. However, SteppingStone officials did not report $12,469 of this revenue to SED as an offsetting expense. We recommend that SED adjust SteppingStone's reimbursable cost claim by the $12,469 offsetting revenue. SED, pursuant to a desk review, previously disallowed some of these costs.

Recommendations

To SED:

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

To SteppingStone:

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

The objective of our audit was to determine whether the costs reported by SteppingStone 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 SteppingStone's CFR for the fiscal year ended June 30, 2018 and certain expenses claimed on its CFRs for the two fiscal years ended June 30, 2017.

To accomplish our objective, we reviewed the RCM, the CFR Manual, the Regulations of the Commissioner of Education, SteppingStone's 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 SteppingStone officials and staff as well as its independent auditor to obtain an understanding of SteppingStone's financial and business practices. Additionally, 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, cost allocation, 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.

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. 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. 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 draft copies of this report to SED and SteppingStone officials for their review and formal comment. 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. In their response, SteppingStone officials generally accepted most of our conclusions, but disagreed with other proposed disallowances. Our responses to certain SteppingStone 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

SteppingStone
Summary of Reported and Disallowed Program Costs
for the 2015-16, 2016-17, and 2017-18 Fiscal Years

Program Costs	Amount Reported on CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services				
Direct Care	$35,076,744	$363,906	$34,712,838	A, D–G, M, O–W
Agency Administration	2,102,328	10,085	2,092,243	
Total Personal Services	**$37,179,072**	**$373,991**	**$36,805,081**	
Other Than Personal Services				
Direct Care	$7,202,179	$198,278	$7,003,901	A–C, H–J, L, N
Agency Administration	1,899,768	(22,129)*	1,921,897	
Total Other Than Personal Services	**$9,101,947**	**$176,149**	**$8,925,798**	
Total Program Costs	**$46,281,019**	**550,140[†]**	**$45,730,879**	
Offsetting Revenue	N/A	12,469[‡]	N/A	K
Net Expenses	**$46,281,019**	**$562,609**	**N/A**	

*For the three fiscal years ended June 30, 2018, OTPS Agency Administration costs were underallocated while OTPS Direct Care costs were overallocated. The $22,129 represents the total OTPS Direct Care cost that should have been allocated to OTPS Agency Administration.

[†]SED, pursuant to a desk review, previously disallowed some of these costs.

[‡]Offsetting revenue was not reported on the CFR.

Notes to Exhibit

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

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

B. 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.

C. RCM Section II.3.D. – Advertisements should not include information that would mislead a parent to believe their child can receive at no cost to them day care services or any and all services the agency has to offer; information that would indicate that services are "free" since services are paid through local and state funds; or general statements that would lead the reader to believe that this is something other than a special education program (i.e., "Are you concerned about your children? Come see us.").

D. RCM Section II.13.A.(4)(d) – For non-direct care staff under the 500 and 600 position title code series per Appendix R of the CFR Manual, and for owners or related parties who work in more than one entity and/or in more than one job title (including organizations that have a less-than-arm's-length relationship with the approved program), the FTE in total across entities or job title cannot exceed 1.000. The allocation of compensation must be supported by time and effort reports or equivalent documentation that meets the following standards: they must reflect contemporaneous time records of the actual activity of each employee; they must account for the total activity for which each employee is compensated; they must be prepared at least monthly and coincide with one or more pay periods; and they must be signed or electronically approved and dated by the employee and the employee's direct supervisor. Executive Directors must have their time records signed or electronically approved by the agency's Controller, Compliance Officer, or staff employed in a similar capacity (in the event the Executive Director also serves as the agency's Controller, then a separate independent individual within the agency's management structure may serve this function). Budget estimates or other allocation methods determined before the services are performed are not adequate documentation for use in completing annual financial reports but may be used for interim accounting purposes.

E. RCM Section II.13.A.(4)(e) – Direct care student-to-staff ratios shall not exceed the approved staffing levels supported by the Department's program approval letter. Any net excess of staff will not be included as part of reimbursable costs in the program's reconciliation tuition rate. Such additional staff may be deemed reimbursable in the prospective rate upon amendment of the provider's program approval letter and demonstration to the satisfaction of the Commissioner that such costs were necessary.

F. RCM Section II.13.A.(5) – Compensation to all individuals who have a financial interest in the program including shareholders, trustees, board members, officers, family members or others, and who are also program employees must be commensurate to actual services provided as appropriately qualified program employees or consultants and shall not include any distribution of earnings in excess of reimbursable compensation. Compensation shall not exceed the average regional levels paid by similar private providers to comparably qualified and appropriately certified personnel for similar work and hours of employment. Any compensation determined to be excessive will not be reimbursed in the tuition rate. For all individuals, compensation for board service or trustee service is not reimbursable. For example, a full-time program employee may serve on the board of directors of the agency. However, compensation for board service will not be reimbursed. Compensation for the employee's personal service to the program will be allowed in the computation of the tuition rate if the board member abstains from any discussion or vote on matters related to his/her compensation and the board minutes reflect this.

G. RCM Section II.13.A.(9) – Expenses for compensation of overtime work for direct care and non-direct care staff that are compensated on an hourly basis are reimbursable subject to all applicable statutes, rules, and regulations of the New York State Department of Labor. Overtime compensation for salaried direct care staff for extracurricular activities, such as coaching stipends, extra period coverage, and plays, are reimbursable when documented in the employee's contract and if they do not exceed local school district compensation for such activities. Overtime for all others, including but not limited to subcontractors and independent consultants, is not reimbursable.

H. RCM 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.

I. RCM Section II.28.A (2015) – Arm's-length interest expense on capital indebtedness and working capital is reimbursable provided the interest rate is not in excess of the prime rate plus 1 percent of the lending institution at the time the loan was made. Interest expense will be reimbursed on loans in excess of the prime rate plus 1 percent in cases where the entity can establish that it was unable to secure a rate of prime plus 1 percent or lower despite its good faith efforts to do so. An entity shall demonstrate good faith efforts through documentation supporting annual attempts to obtain the most competitive rate available by requesting quotes from at least three lending institutions. Loan procurement fees are not reimbursable.

J. RCM Section II.28.A (2016 and 2017) – Arm's-length interest expense on capital indebtedness and working capital is reimbursable provided the interest rate is not in excess of the prime rate plus 1 percent of the lending institution at the time the loan was made. Interest expense will be reimbursed on loans in excess of the prime rate plus 1 percent in cases where the entity can establish that it was unable to secure a rate of prime plus 1 percent or lower despite its good faith efforts to do so. For working capital loans, an entity shall demonstrate good faith efforts through documentation supporting annual attempts to obtain the most competitive rate available by requesting quotes from at least three lending institutions. For capital indebtedness, an entity shall demonstrate good faith efforts through documentation supporting attempts every five years to obtain the most competitive rate available by requesting quotes from at least three lending institutions. Loan procurement fees are not reimbursable.

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

L. RCM Section II.59.F. – Travel expenses of spouses, family members, or any non-employee (e.g., consultants, independent contractors) are not reimbursable unless the spouse or family member is an employee of the entity(ies) and a legitimate business purpose exists for them to travel.

M. RCM Section III.1.A. – Compensation costs must be based on approved, documented payrolls. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid. Employee time sheets must be signed by the employee and a supervisor, and must be completed at least monthly.

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

O. 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.

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

Q. RCM Section IV.2.F. (2015) – All 1:1 aide costs (salaries, fringe benefits of the aide and allocated direct and indirect costs) should be reported in one separate cost center on the provider's financial reports.

R. CFR Manual Section 8 (Page 8.5) – Expenses and revenues and FTE enrollment for approved 1:1 teacher aides (preschool and school age) must be reported as a separate column (Program Code 9230).

S. CFR Manual Section 8 (Page 8.5) – Day care expenses in excess of the integrated program should be reported in a separate column (Program Code 9164).

T. CFR Manual Section 8 (Page 8.7) – The following pertains to early childhood programs for eligible 4-year-olds provided at school and non-school sites pursuant to Chapter 436 of the Laws of 1997. If your agency operates UPK in conjunction with a special class in an integrated setting program (Program Codes 9160-9163 and 9165-9169), report the revenues and expenses for UPK in the same column(s) as 9160 and 9165. Revenues for UPK should be reported on Schedule CFR-1 line 87. Report non-disabled enrollment for UPK on line 101 of Schedule SED-1. If the UPK program is not operated in conjunction with a special class in an integrated setting program, report the expenses and revenues for this program in Column 7, "Other Programs," of Schedule CFR-2.

U. CFR Manual Appendix H (Page 41.3) – Report all costs of day care in excess of the approved duration of your integrated program. For example, if the day care program operates from 7 a.m. to 5 p.m. (ten hours) and the integrated program operates from 9 a.m. to 2 p.m. (five hours), report the costs of the five hours of day care operation in Program Code 9164. If your agency is funded by the Division of Early Care and Education, report all costs, revenues, and related statistical data in Program Code 9164.

V. CFR Manual Appendix I (Page 41.6) – [The 9230] cost column should include the additional revenue and expenses for child-specific teacher aides/assistants for school age and preschool students recommended by the CSE/CPSE and included as part of the student's Individualized Education Program.

W. CFR Manual Appendix J (Page 43.2) – For housekeeping and janitorial staff who serve more than one program, compensation and fringe benefits may be allocated according to the square footage of the space the staff is maintaining.

Agency Comments - State Education Department

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

SENIOR DEPUTY COMMISSIONER
Office of Performance Improvement and Management Services
O: 518.473-4706
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December 31, 2020

Mr. Kenrick Sifontes
Audit Director
Office of the State Comptroller
Division of State Government Accountability
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, 2020-S-23, SteppingStone Day School, Inc. (SteppingStone) - Compliance With the Reimbursable Cost Manual.

Recommendation 1:

"Review the recommended disallowances identified by our audit and make the necessary adjustments to the costs reported on SteppingStone's CFRs and to SteppingStone's tuition reimbursement rates, as warranted."

Upon reviewing the revised disallowance figures shared with us under separate cover, we agree with this recommendation in conjunction with those revised figures. SED will review the recommended disallowances as noted in the report, and the revised disallowance figures shared with us under separate cover and will make adjustments to the reported costs to recover any overpayments, as appropriate, by recalculating tuition rates. NYSED will further consider the proposed adjustments to staffing and associated costs classified as day care costs in accordance with applicable requirements.

Recommendation 2:

"Remind SteppingStone 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 SteppingStone 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 SteppingStone 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

c: Phyllis Morris
Christopher Suriano
Suzanne Bolling
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December 22, 2020

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

Re: State Education Department
Compliance with the Reimbursable Cost Manual
Stepping Stone Day School, Inc.
Audit Report 2020-S-023
Draft Audit Report

Dear Mr. Sifontes:

We have reviewed the above-referenced Draft Audit Report relating to whether the costs reported by Stepping Stone Day School, Inc. (SSDS) on its Consolidated Fiscal Reports (CFRs) for the fiscal years ending June 30, 2018 and certain expenses claimed for the two fiscal years ending June 17, 2017, were reasonable, necessary, directly related to the special education program, and sufficiently documented consistent with the State Education Department's Reimbursable Cost Manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). We appreciate the opportunity to provide comment on the Draft Audit Report for meaningful consideration in the development of the Final Report.

Personal Service Costs

SSDS appreciates the auditors' acknowledgement that SED has, pursuant to a desk review, previously disallowed some of the costs which the auditors' have identified in the Draft Report – such prior disallowance effectively assuring protection of the public funding which supports SSDS's educational programming.

Excessive Allocation

Daycare Allocation

Stepping Stone acknowledges that certain costs and expenses associated with specific "drop-off/before care/after care" operations had not been clearly distinguished on the CFR from the special education programming.

As SSDS shared with the audit team, certain staff members' work days consisted of activities before the hours of the 4410 program operation, and after the conclusion of the 4410 standard day of operation. We must clarify again that the extended care operations were from

To: Kenrick Sifontes
From: Pamela A. Madeiros
Date: December 22, 2020

7:30-8:15 in the morning, and 2:30-5:00 after the standard educational programming. The traditional day care program operated between the hours of 7:30 and 4:30 daily. We appreciate the auditor teams' favorable review of select portions of the extensive documentation provided in support of the allocation of costs associated with certain of these complementary operations, including comprehensive time sheets, job descriptions, classroom assignments and employment agreements, as well as an alternative allocation methodology.

We must reassert our challenge of certain costs and expenses associated with 2 teacher assistants (DK;KG) who also assisted in operation of the before and after care program, however.

Comment 1

As SSDS shared with the audit team, certain staff members' work days consisted of activities "before" the hours of the 4410 program operation, and "after" those program hours. For example, KG's 37.5 hour work week (7.5 hrs/day x 5 days/wk) consisted of 45 minutes a day engaged in "before care" activities and 6 hours 15 minutes (375 minutes) engaged in Teacher Assistant activities (8:15-3:00 with 30-minute lunch) in an assigned classroom. The work day, with both components, then, was 420 minutes in duration. (See: Employment Agreement; Time Card Report; Full Day Class Roster). As the provided chart reflects, the appropriate portion of KG's salary associated with the "before" care activities, then, is 10.71% and not the proportionate amount determined upon the auditors' application of the ratio value allocation methodology. The variance – $1,376 – should, then, be restored as an allowable program expense.

Comment 2

SSDS takes similar issue with the activities of DS – a Teacher Assistant whose work day was comprised of 330 minutes while engaged in Teacher Assistant activities (8:15-2:30, with 45-minute lunch) and 150 minutes engaged in "after" care duties (12:30-5:00). (See: Employment Agreement; Time Card Report; Full Day Class Roster). As the provided chart reflects, the appropriate portion of DS's salary associated with the "after care' activities, then, is 31.25% and not the proportionate amount determined upon the auditors' application of the ratio value allocation methodology. The variance – $19,494 – should, then, be restored as an allowable program expense.

Comment 3

We do not challenge the auditors' proposed disallowance associated with YA's clerical salary.

Similarly, SSDS does not challenge the auditors' assertion that appropriate program administrator salary costs should be allocated to the complementary operation through an appropriate allocation methodology and appreciate the auditors' consideration of an alternative allocation methodology than initially proposed.

We reassert our challenge, however, that the titled position of principal is exclusive to the cost based educational programs, including compliance officer responsibilities, and should not be included in any administrator salary cost allocation to the complementary programs. We also renew our challenge of the disallowance of a portion of salary expenses associated with the titled position Program Director as proposed upon application of the auditors' reallocation formulae. SSDS provided detailed time studies reflecting the program director responsibilities exclusive to

Comment 4

Comment 5

the cost based educational program which appear not to have been considered by the audit team. We respectfully request these title positions be readjusted within the reallocation calculation.

We also reassert our position that the allocation formulae applied by the audit team exaggerates the percentage of allocation. As detailed in our analysis, the allocation more appropriately approaches 3 to 7 percent contrasted with the auditors' inflated figure. We request reconsideration of the allocation formulae SSDS has provided.

Comment 6

Substitute Teacher Allocation

SSDS again appreciates the auditors' thoughtful consideration of the comprehensive sets of documentation submitted in support of each of the identified employees whose salary costs the auditors' asserted were incorrectly charged to the SED preschool cost-based programs and reassert our challenge to the remaining disallowance. SSDS provided detailed payroll support for each of the individuals set out in the auditors' sample to the full extent of the proposed disallowance. SSDS also provided detailed session notes, classroom rosters and other reports and records which reflected staff absences warranting the redeployment of 1:1 aides on the occasion of the absence of the student to whom the 1:1 aide was assigned. We respectfully request the auditors reconsider the remaining disallowance.

Comment 7

Non-Reimbursable/Unsupported Compensation

SSDS reasserts its challenge of the auditors' proposed disallowance regarding non-reimbursable overtime for a staff member who would perform certain translation duties as part of her standard employee workday responsibilities but who would be called upon, on occasion, to perform unrelated translation services outside the standard work day/work week. These additional services were compensated consistent with the industry standard – per page—and were properly invoiced consistent with RCM requirements. We challenge the auditors' characterization of these additional services as "overtime", preferring the more appropriate designation as "additional services", discretely differentiated from the duties performed under her employment contract. The documents to be translated outside the standard workday were vastly dissimilar than those managed during the scope of the employment contract and corresponding work day. Accordingly, those well documented and properly invoiced costs and expenses should be recognized as allowable expenses.

Comment 8

SSDS does not challenge the $208 in errorously allocated evaluation service compensation.

SSDS reasserts the challenge, however, of the auditors' finding around previously unsupported payroll expenses, having provided documentation reflecting a 2% salary increase award to all staff, while select staff received performance-based salary enhancements.

Comment 9

Excessive Compensation

SSDS is unable to challenge the auditors' finding that $9,389 in compensation costs to a member of the agency's Board of Directors who also provided Marking Director services is "excessive" as we are unable to determine the "average salary" against which the auditors measured the appropriateness of the salary level which, it appears, the auditors obtained from a source not available in "real time" to the provider community. As the auditors are aware. SED maintains its own data points in its determination of "average salary" – data which is updated and revised as salary information is collected. SSDS is severely disadvantaged by this approach to data retention, as demonstrated by this proposed disallowance based upon a retroactive application of salaries. Accordingly, we request reconsideration of this proposed disallowance.

Comment 10

Other Than Personal Service Costs

Over Allocated Costs

SSDS appreciated the audit teams' consideration of an alternative allocation methodology to that initially proposed around certain costs and expenses not attributable to the cost-based program.

Accordingly, SSDS does not challenge the auditors' finding of $8,991 in repair and maintenance expenses not attributable to the preschool special education program.

Nor does SSDS challenge the auditors' proposed disallowance of $50,848 in supply expenses incurred to the benefit of the agency's complementary programs.

Nor does SSDS challenge the proposed disallowance of $8,874 in mortgage interest expenses more appropriately allocated to the agency's complementary program operations.

Similarly, SSDS does not challenge the proposed disallowance of $6,663 in depreciation expenses, $6,432 in utility expenses, nor $2,645 in rent expenses more appropriately allocated to the agency's complementary program operation.

Ineligible Costs

Excess Mortgage Expense

SSDS does not challenge the auditors' assessment of mortgage interest expenses as claimed on the CFR.

Unallowable Expense

SSDS does not challenge the proposed disallowance of $6,999 in costs associated with the provision of clinical services which were inadvertedly allocated to the cost-based program rather than the evaluation cost center.

SSDS does not challenge the auditors' finding of $2,064 in repair and maintenance and supply expenses for which we are unable to retrieve supporting documentation, although each cost was program related and necessary.

To: Kenrick Sifontes Page 5
From: Pamela A. Madeiros
Date: December 22, 2020

SSDS does not challenge the proposed disallowance of $1,770 in advertisement costs which lacked required exclusivity of special education programming application.

SSDS likewise does not challenge the auditors' finding around staff development expenses, $247 in building related costs, nor $258 in staff fingerprinting costs.

Unreported Offsetting Revenue

Stepping Stones does not challenge the auditors' finding that certain revenue generated by non-disabled students was errorously reported for each of the audit years. We note, however, as acknowledged by the audit team, that SED made the necessary adjustment during the rate setting process.

• • • • •

We appreciate the opportunity to provide comment to the auditors' Draft Report.

Very truly yours,

GREENBERG TRAURIG, LLP

PAM/maf
Enclosures
cc: Kenrick Sifontes, OSC
Stephen Lynch, OSC
James Kampf, NYSED
Brian Zawistowski, NYSED

State Comptroller’s Comments

1. StepppingStone officials are mistaken. DK was not part of the recommended disallowance.
2. Based on additional information provided by SteppingStone, we revised our report to reduce the recommended disallowance related to KG.
3. Based on additional information provided by SteppingStone, we revised our report to reduce the recommended disallowance related to DS.
4. We disagree. This employee provided services to both the SED cost-based programs and the non-cost based programs and should be allocated accordingly.
5. Based on additional information provided by SteppingStone, we revised our allocation methodology and reduced the recommended disallowance.
6. Our allocation formula did not exaggerate the percentage of allocation. SteppingStone officials could not provide adequate supporting documentation for any of their proposed alternative allocation methodologies.
7. Based on additional information provided by SteppingStone, we revised our report to reduce the recommended disallowance related to substitute teacher allocations.
8. We stand by our findings. As stated on page 10 of our report, the RCM states that additional compensation beyond an employee’s salary must be outlined in the employee’s contract. However, the employee’s contract made no mention of this. Moreover, the employee’s contract already included translation services as part of their regular duties.
9. We disagree. We already took the 2 percent salary increase into consideration during our audit.
10. We contacted SED to obtain the average salary data. Providers, such as SteppingStone, also have the ability to contact SED officials to obtain the same data.

Contributors to Report

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