New York State Comptroller
THOMAS P. DiNAPOLI

All My Children Day Care — Compliance With the Reimbursable Cost Manual

State Education Department

Report 2020-S-3 | **June 2022**

Spotlight on Education

Audit Highlights

Objective

To determine whether the costs submitted by All My Children Day Care (AMC) on its Consolidated Fiscal Reports (CFRs) were reasonable, necessary, directly related to the special education program, and sufficiently documented pursuant to the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (RCM). The audit covered the costs submitted by AMC to SED on its CFRs for the fiscal years ended June 30, 2013 and June 30, 2015 and certain expenses for the fiscal year ended June 30, 2014.

About the Program

AMC is a New York City-based not-for-profit organization authorized by SED to provide Special Education Itinerant Teacher (SEIT) services to children with disabilities who are between the ages of 3 and 5 years. AMC also operated other programs, including the New York City Administration for Children's Services' Early Learn program. During the 2014-15 school year, AMC served approximately 785 students.

The New York City Department of Education refers students to AMC and pays for its services using rates established by SED. The rates are based on the financial information AMC reports to SED on its annual CFRs. For the 3 fiscal years ended June 30, 2015, AMC reported approximately $8 million in reimbursable costs for its SEIT program.

Key Findings

AMC failed to provide certain key documents it should have retained to support the expenses claimed on its annual CFRs. For fiscal year 2012-13, AMC did not provide any support for its claimed expenses and admitted commingling program funds – a practice that is not in compliance with its own stated policy. For fiscal year 2013-14, some of the supporting information AMC provided to us differed from information it provided to SED. For fiscal year 2014-15, AMC only provided support for a modified CFR that was never accepted by SED. As a result of these significant internal control weaknesses at AMC for the 3 fiscal years ended June 30, 2015, we recommend SED disallow $5,300,127 in reported costs that did not comply with the requirements in the RCM, including:

- $3,118,238 in unsupported costs for fiscal year 2014-15. AMC did not provide a reconciliation between the general ledger and the CFR that was used by SED to calculate AMC's reimbursement rate for that year; therefore, we could not conduct a review of the claimed expenses.
- $1,806,360 in unsupported costs for fiscal year 2012-13. AMC did not provide the general ledger and reconciliation between the general ledger and CFR; as a result, we could not conduct a review of the claimed expenses.
- $301,014 in non-reimbursable salaries and fringe benefits for 2013-14, including $175,672 in compensation costs for three employees for whom AMC did not provide time records, $111,436 related to conflicting information provided to SED and OSC in support of agency administration salaries, and $13,906 in other non-allowable fringe benefit costs.

- $74,515 in non-reimbursable other than personal service (OTPS) costs for fiscal year 2013-14, including $47,710 for costs (e.g., rent, utilities, repairs) related to non-approved SEIT sites, $11,992 for charitable contributions, and $14,813 for other ineligible OTPS costs.

Key Recommendations

To SED:

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

To AMC:

- 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

June 8, 2022

Betty A. Rosa, Ed.D.
Commissioner
State Education Department
State Education Building – Room 125
89 Washington Avenue
Albany, NY 12234

Bella Shamsiev
Executive Director
All My Children Day Care
561 Utica Avenue
Brooklyn, NY 11203

Dear Dr. Rosa and Mrs. Shamsiev:

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 All My Children Day Care to the State Education Department for the purposes of establishing tuition reimbursement rates. This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 4410-c of the State Education Law.

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

Respectfully submitted,

Division of State Government Accountability

Contents

Glossary of Terms

Abbreviation	Description	Identifier
AMC	All My Children Day Care	*Service Provider*
CFR	Consolidated Fiscal Report	*Key Term*
CFR Manual	Consolidated Fiscal Reporting and Claiming Manual	*Policy*
DOE	New York City Department of Education	*Agency*
OTPS	Other than personal service	*Key Term*
RCM	Reimbursable Cost Manual	*Policy*
Regulations	Regulations of the Commissioner of Education	*Regulations*
SED	State Education Department	*Auditee*
SEIT	Special Education Itinerant Teacher	*Key Term*

Background

All My Children Day Care (AMC) is a New York City-based not-for-profit organization authorized by the State Education Department (SED) to provide Special Education Itinerant Teacher (SEIT) services to children with disabilities who are between the ages of 3 and 5 years. AMC also operated other programs, including the New York City Administration for Children's Services' Early Learn program. AMC operates from locations in Brooklyn, Manhattan, and Queens.

The New York City Department of Education (DOE) refers students to AMC and pays for its services using rates established by SED. These rates are based on the financial information AMC reports to SED on its annual Consolidated Fiscal Reports (CFRs). To qualify for reimbursement, AMC's expenses must comply with the criteria set forth in SED's Reimbursable Cost Manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual), which provide guidance to special education providers on the eligibility of reimbursable costs, the documentation necessary to support these costs, and cost allocation requirements for expenses related to multiple programs and entities. The Regulations of the Commissioner of Education (Regulations) require entities operating approved programs to retain all pertinent accounting, allocation, and enrollment/attendance records supporting reported data directly or indirectly related to the establishment of tuition rates for 7 years following the end of each reporting year. The State reimburses DOE 59.5% of the statutory rate it pays to AMC.

For the 3 fiscal years ended June 30, 2015, AMC reported $8,034,281 ($1,806,360 in 2012-13, $3,109,683 in 2013-14, and $3,118,238 in 2014-15) in reimbursable costs for its SEIT program.

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 3 fiscal years ended June 30, 2015, we identified – and recommend SED disallow – $5,300,127 in reported costs that did not comply with SED's requirements for reimbursement. These ineligible costs included $4,593,991 in personal service costs and $706,136 in other than personal service (OTPS) costs (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 AMC's internal controls over its compliance with SED requirements. These weaknesses include commingling of program funds and failing to maintain and provide certain key documents to support expenses claimed on submitted CFRs. We describe these weaknesses more fully below for each of the 3 fiscal years covered by this audit.

Fiscal Year 2012-13

Despite our initial request attached to the engagement letter sent to AMC on January 14, 2020 and several requests thereafter, AMC officials did not provide us with the general ledger, reconciliation between the general ledger and the 2012-13 CFR, and certain other requested documentation to support the expenses reported on the CFR. Moreover, AMC officials did not address or provide the missing documentation when they subsequently responded to our preliminary findings. We recommend that SED disallow $1,806,360 in 2012-13 SEIT expenses, including $1,650,169 in personal service costs and $156,191 in OTPS costs, because AMC did not provide support to show that these expenses complied with SED's reimbursement requirements.

AMC's independent accountants, during their 2012-13 Annual Financial Statement audit, discovered that AMC engaged in several inter-program transfers of funds to cover expenditures made on behalf of other programs, as well as certain year-end allocations that should have been made during the year. AMC officials asserted that they made the transfers because of serious cash flow issues resulting from certain program funds not being received timely. They acknowledged that the commingling of funds among the various programs contradicted their own policy and was not a one-time occurrence.

Fiscal Year 2013-14

For the fiscal year ended June 30, 2014, AMC reported approximately $3,109,683 in reimbursable costs for its SEIT program. This included $2,849,715 in personal service costs and $259,968 in OTPS costs. We identified $375,529 ($301,014 in personal service costs and $74,515 in OTPS costs) that did not comply with the RCM's requirements for reimbursement, as discussed next.

Employee Time Records

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). 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. Compensation costs must be based on approved, documented payrolls, which must be supported by employee time records prepared during, not after, the time period for which the employee was paid. Further, employee time sheets must be signed by the employee and a supervisor and must be completed at least monthly. Costs must be charged directly to specific programs whenever possible.

We selected a judgmental sample of six employees and requested their time sheets; however, AMC officials did not provide time sheets for three of the six employees. Two of these three employees were daughters of AMC's Executive Director. According to AMC officials, one of the daughters worked as AMC's Education Director and Special Education Supervisor while living out of state in Florida. AMC officials provided notes and emails for this employee, but the records did not indicate any work hours or beginning and ending times each day. Officials provided a description of bi-weekly tasks for the other daughter and a calendar for the third employee but no time sheets; however, these records also did not indicate any work hours or beginning and ending times. Officials indicated that AMC's policy is for employees to track their own time in a method that is convenient for them. However, we noted that the methods used for these three employees did not meet the requirements of the RCM as the times worked were not sufficiently documented. Therefore, we recommend SED disallow $175,672 in salaries and fringe benefits claimed under the SEIT program for these employees. In response to the recommended disallowances, AMC officials stated that the RCM does not require time sheets showing hours worked specifically; rather, it requires employee time records. However, the documents that AMC provided for these employees did not contain any beginning times, ending times, or number of hours worked per day, which are the components needed to determine time worked. Since AMC officials did not support the hours worked for these employees, their salary costs were not reimbursable under the RCM.

Discrepancies Between Salary Documents Provided to SED and OSC

On January 14, 2020, we requested that AMC officials provide the 2013-14 general ledger and the reconciliation between the general ledger and the 2013-14 CFR. Despite multiple requests, AMC officials did not provide the information until March 11, 2020. The reconciliation provided by AMC included a list of employees whose salaries reconciled with the $1,204,571 in agency administration salaries reported on the 2013-14 CFR. In addition, SED provided us with a list of employees AMC previously sent to SED. Although the list tied in to the $1,204,571 in agency administration salaries reported on AMC's 2013-14 CFR, the names of the employees and the salary amounts significantly differed from the list AMC sent to us. For example, AMC listed almost $142,000 for one employee on the information provided to SED; however, this employee was not included on the information provided to us. Further, at least three of the Executive Director's relatives were included in the list AMC sent to SED but were not included in the list AMC provided to us. In total, the names of 23 employees on the list AMC sent to us did not appear on the list AMC sent to SED. Salary amounts totaling $170,392 were the same on both lists for only nine of 55 employees named on either list; salaries totaling $1,034,179 for the remaining 46 employees did not match. We recommend SED disallow $111,436 for the conflicting salary costs that were allocated to the SEIT program.

AMC officials stated that the employee lists did not match because the list AMC sent to SED was in support of a prior 2013-14 CFR submission. Officials added that the employee list they sent us was in support of a revised 2013-14 CFR that superseded the previous submission. However, we noted that agency administration salaries totaled $1,204,571 on only one 2013-14 CFR submission – the latest 2013-14 CFR submitted by AMC to SED. Agency administration salaries on the two previous submissions each totaled $957,873. Although the employee lists provided to SED and OSC tied in to the $1,204,571, the names of the employees and the salary amounts differed significantly. Therefore, we do not know which salary expenses were actually claimed for reimbursement. After we brought this to the attention of AMC officials, they attributed the differences in the lists to their new controller's correction of their former controller's work. Officials stated that they left the salary total the same because the organization understood that it had exceeded the allowable administrative limit for the SEIT program and changing the total amount would make no impression on the SEIT program other than being further overspent.

In addition, despite multiple requests, AMC officials did not provide us with a reconciliation of the agency administration fringe benefit costs reported on the CFR with AMC's general ledger. Therefore, we recommend SED disallow $13,906 of these fringe benefit costs that were allocated to the SEIT program. AMC officials noted that several critical issues affected the availability and timely provision of supporting documents. These included the effects of the COVID-19 pandemic, software updates, a massive flood, and the addition of 11 locations during the audit period.

Expenses Related to Unapproved Sites

The Regulations define SEIT as an approved program provided by a certified special education teacher to preschool students attending a regular early childhood program at a child care setting selected by the parent, or at the child's home. For the SEIT program, providers must obtain written approval from SED for program expansion requiring additional property-related costs, classroom equipment, etc. when the cost is expected to be reimbursed fully or partially through the tuition rate. Instructional and non-instructional space to be occupied by approved programs in which space is new, is substantially altered, or results in capitalized costs in excess of $100,000 will require written approval from SED prior to implementing. Further, proposals for renovations, alterations, or major repairs must be submitted to SED for review and comment.

For the fiscal year ended June 30, 2014, AMC received SED approval for only one site for its SEIT program. However, we found that AMC reported at least $152,443 in property-related costs (e.g., rent, utilities, repairs) related to at least 10 other sites. Consequently, we recommend SED disallow $47,710 in unapproved site costs claimed under the SEIT program. This included $2,517 in repair costs that were ultimately reimbursed by an insurance company and $13,768 in rental costs for a building owned by AMC's Education Director (the Executive Director's daughter) and another administrative employee.

AMC officials indicated that administrative sites and sites that did not incur costs in excess of $100,000 do not require prior SED approval. However, as the requirements mentioned above indicate, this is not accurate. In addition, officials acknowledged that they received insurance payments for certain repair costs. They stated that, since the organization knew its administrative costs exceeded the non-direct care cost screen and many of its costs would not be reimbursed, the controller at that time had to keep the cost in administration in order to maintain an orderly reconciliation of supporting files.

Other Non-Reimbursable 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. All purchases must be supported with invoices listing the items purchased and indicating the date of purchase and date of payment, as well as with canceled checks. Gifts and expenses of a personal nature, such as a residence or personal use of a car, known as perquisites (or perks), are not reimbursable. Political and charitable contributions and donations made by the program are also not reimbursable. In addition, vehicle logs must be maintained to document fuel charges, mileage, and repair costs for all program-owned vehicles and must include, at a minimum, the date, time of travel, to and from destinations, mileage between each, purpose of travel, and name of the traveler. If the vehicle was assigned to an employee, the name of the employee to whom it was assigned must be listed. The annual mileage for program purposes and repairs and maintenance costs for each vehicle should be summarized and maintained.

We recommend that SED disallow $26,805 for the following non-reimbursable OTPS costs:

- $11,992 for charitable contributions;
- $6,235 for appropriations;
- $5,352 for costs not supported by invoices;

- $1,830 for vehicle-related costs not supported by vehicle usage logs;
- $1,316 for other travel and gas costs where AMC did not provide documentation showing the purpose of the travel; and
- $80 for penalties and fees.

Fiscal Year 2014-15

For fiscal year 2014-15, AMC provided a segmented general ledger and reconciliation that did not tie into the expense totals reported on the CFR for that period. We queried AMC officials about this discrepancy and were advised that the reconciliation AMC provided was for a modified CFR they filed with SED. However, when we reached out to SED officials, they informed us that SED did not accept the modified CFR. SED officials also indicated they informed AMC of the need to review their resubmitted CFR due to significant changes, provided AMC with a breakdown of the changes, and requested explanations. According to SED officials, the comments provided by AMC were general, vague, and, in SED's opinion, not sufficient to warrant accepting the resubmitted CFR. SED confirmed that the 2014-15 CFR we asked AMC to provide a reconciliation for was indeed the CFR that SED used to set AMC's tuition rate for 2014-15. We communicated this to AMC officials, but they still did not provide a reconciliation for this CFR. Subsequently, we issued preliminary findings recommending that SED disallow $3,118,238 in SEIT expenses for fiscal year 2014-15. In response to our preliminary findings, AMC officials indicated that they were not aware that SED did not accept the modified CFR until after we commenced our audit. AMC officials did not provide the reconciliation for the CFR that SED accepted and instead requested in their response that we audit the modified CFR that was not certified by SED.

Consequently, we recommend that SED disallow $3,118,238 in SEIT expenses, including $2,642,808 in personal service costs and $475,430 in OTPS costs, reported on the 2014-15 CFR that SED used to set AMC's tuition rate.

Recommendations

To SED:

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

To AMC:

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 AMC on its CFRs were reasonable, necessary, directly related to the special education program, and sufficiently documented pursuant to SED guidelines. The audit covered the costs submitted by AMC to SED on its CFRs for the fiscal years ended June 30, 2013 and June 30, 2015 and certain expenses for the fiscal year ended June 30, 2014.

To accomplish our objective, we reviewed the RCM, the CFR Manual, AMC'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, and found significant weaknesses. AMC officials did not provide or provided conflicting versions of the reconciliations between their general ledgers and CFRs. This limited our ability to review all of the expenses that AMC claimed for reimbursement under the SEIT program for the fiscal years ended June 30, 2013, and June 30, 2015 and certain expenses for the fiscal year ended June 30, 2014. The lack of adequate documentation renders these expenses unsupported under SED guidelines. Therefore, we recommend SED disallow these expenses. Certain findings noted in this report were referred to outside law enforcement for review.

We also interviewed AMC officials to obtain an understanding of their financial and business practices and their practices for reporting costs on the CFRs. In addition, we selected judgmental samples of reported 2013-14 personal service and OTPS 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. Our sample selections were based on the relative materiality of the various categories of costs reported and their associated levels of risk. Our sample was not designed to be projected to the entire population of reported costs.

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 Education Law.

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

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. These duties could be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our professional judgment, these duties do not affect our ability to conduct this independent audit of SED's oversight and administration of AMC's compliance with the RCM.

Reporting Requirements

We provided a draft copy of this report to SED and AMC 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 they will continue to provide technical assistance to AMC officials whenever requested and will strongly recommend AMC officials avail themselves of SED's assistance, as well as online CFR training, to better understand the rules for cost reporting and criteria for cost reimbursement. In their response, AMC officials disagreed with our conclusions and asked that we reconsider our disallowance recommendations. Our responses to certain AMC comments are included in the report's State Comptroller's Comments. Along with their response, AMC officials included a listing of the documents they assert were provided to the auditors. This listing has not been reproduced within our report but has been retained on file at the Office of the State Comptroller.

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

Exhibit

All My Children Day Care
Summary of Submitted and Disallowed Program Costs
for the 2012-13, 2013-14, and 2014-15 Fiscal Years

Program Costs	Amount Reported on CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services				
Direct Care	$6,846,324	$4,319,064	$2,527,260	C, K
Agency Administration	296,368	274,927	21,441	
Total Personal Services	**$7,142,692**	**$4,593,991**	**$2,548,701**	
Other Than Personal Services				
Direct Care	$660,108	$519,212	$140,896	A–J, L, M
Agency Administration	231,481	186,924	44,557	
Total Other Than Personal Services	**$891,589**	**$706,136**	**$185,453**	
Total Program Costs	**$8,034,281**	**$5,300,127**	**$2,734,154**	

Notes to Exhibit

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

A. RCM Section I.1.B.(1) – Program and fiscal issues that require prior written approval of the Commissioner of Education's designees include but are not limited to education program expansion requiring additional staff, property-related costs, classroom equipment, etc. when the cost is expected to be reimbursed fully or partially through the tuition rate. Both program and fiscal designee written approvals are required.

B. RCM Section I.1.B.(2) – Program and fiscal issues that require prior written approval of the Commissioner of Education's designees include but are not limited to new or renovated facility space, both instructional and non-instructional, to be occupied by approved programs in which space is new, is substantially altered, or results in capitalized costs in excess of $100,000. Both program and fiscal designee written approvals are required prior to implementing.

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

D. RCM Section II.9.A.(1) – Renovations of existing buildings: Costs of renovations, alterations, or major repairs must be approved by the District Board in accordance with the District's annual approved budget policy. Proposals for renovations, alterations, or major repairs must be submitted to SED for review and comment.

E. RCM Section II.13.A.(6) – Expenses of a personal nature, such as a residence or personal use of a car, known as perquisites (or perks), are not reimbursable.

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

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

H. 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, and rental expenses for personal apartments, are not reimbursable unless specified otherwise in the RCM.

I. RCM Section II.24 – Gifts of any kind are non-reimbursable.

J. RCM Section II.59.D.(5) – A vehicle log must be maintained to document fuel charges, mileage, and repair costs for all program-owned vehicles.

K. 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.

L. RCM Section III.1.D – All purchases must be supported with invoices listing items purchased, date of purchase, and date of payment, as well as with canceled checks.

M. RCM Section III.1.J.(2) – Vehicle use must be documented with individual vehicle logs that include, at a minimum, the date, time of travel, to and from destinations, mileage between each, purpose of travel, and name of the traveler. If the vehicle was assigned to an employee, the name of the employee to whom it was assigned must be listed. The annual mileage for program purposes and repairs and maintenance costs for each vehicle should be summarized and maintained.

Agency Comments - State Education Department

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

EXECUTIVE DEPUTY COMMISSIONER
(518) 473-8381
E-mail: Sharon.Cates-Williams@nysed.gov

April 22, 2022

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-3, *All My Children Day Care (AMC) - 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 AMC's CFRs and to AMC's tuition reimbursement rates, as warranted."

We agree with this recommendation. SED will review the recommended disallowances as noted in the report and make adjustments to the reported costs to recover any overpayments, as appropriate, by recalculating tuition rates.

Recommendation 2:

"Remind AMC 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 AMC's 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, Regulations, and the Reimbursable Cost Manual (RCM).

Furthermore, SED will alert AMC 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: Christopher Suriano
Suzanne Bolling
Brian Zawistowski
James Kampf
Jerry Nestleroad
Jeanne Day
Nell Brady

Kenrick Sifontes
Audit Director
Office of the State Comptroller
Division of State Government Accountability
59 Maiden Lane
New York, NY 10038

April 11, 2022

Re: Audit Report 2020-S-3 SED/All My Children

To Whom This May Concern,

I am writing today on behalf of my organization, All My Children Daycare and Nursery School ("AMC"), in response to the draft audit report ("Draft Audit Report") delivered to AMC by the Office of the State Comptroller ("OSC") in March 2022. The Draft Audit Report recommends that the State Education Department ("SED") disallow approximately $5.4 million in expenses incurred by AMC in fiscal years 2012-13, 2013-14, and 2014-15. Because the Draft Audit Report describes the audit process and AMC's cooperation with the audit team either inaccurately or incompletely in several ways, I am writing to provide clarification on findings proposed in the Draft Audit Report.

Comment 1

It is our hope that in the interests of AMC, the industry as a whole, and most importantly, the children we serve, that these responses will not be taken lightly, and AMC will be provided the opportunity to continue to serve its community.

I. Background

AMC has been servicing the public's needs for over 30 years. Throughout our decades of work, we have consistently been applauded for the services we have provided and the impact that we have on the students of the communities we serve. Over the recent decade, AMC has undergone significant growth, now operating 14 sites, providing services to 1,574 children, and employing approximately 300 team members. We assess and care for each child as though they are our own. Each staff member is screened and hired based on their desire to help these children, their credentials, and their commitment to the program. AMC has grown its infrastructure accordingly, which includes an expanded finance department, more robust software, and continual enhancements to its internal controls and control environment. Furthermore, one of our funders focuses specifically on the Special Education Itinerant Teacher ("SEIT") program, which represents approximately 12 percent of our total program services.

Throughout these recent years, AMC has created an environment that can seamlessly bring together our programmatic results and financial reporting so that we can convey our information in an appropriate manner. We embrace audits, questions, and other forms of oversight from our funding agencies and remain proud of our accomplishments. We therefore embrace the OSC audit and seek to learn what we can do better throughout the process. OSC initiated its audit of AMC more than two years ago, with a review looking back seven to 10 years (from July 1, 2012, to June 30, 2015). From 2012 to 2022, documentation and approval methods, remote work forces, software capabilities, and other aspects of our operations have changed dramatically. In response to OSC's requests, AMC has provided to OSC thousands of documents and has made additional materials available for the agency's inspection. Accordingly, while the Draft Audit Report states that certain documents have not been provided to the audit team, AMC respectfully asserts that all of these materials have been either delivered to the audit team or otherwise made available.

Comment 2

Comment 3

Furthermore, the audit itself has proceeded in a manner that has resulted in redundancy and unnecessary burden to both AMC and OSC. At the outset of the audit, the audit team had the opportunity to learn how AMC operates and develop an appreciation for our control structure—a critical part of any audit process. But because of personnel changes at OSC, it was not the same team that completed the audit and has issued the draft final reports. AMC actively cooperated with the audit team in its various iterations, including by responding to duplicate requests after the audit had already been underway for over a year. As a general matter, it seems possible that certain critical communications were simply not incorporated in the conclusions leading to the Draft Audit Report due to those administrative challenges.

Comment 4

II. Responses to Draft Audit Report Recommendations

The Draft Audit Report makes recommendations for disallowances for fiscal years 2012-13, 2013-14, and 2014-15. In short, these recommendations would put hinder AMC's ability to continue to provide its services at the same level and need of its constituents: This matter is nothing short of existential to the organizations goals and objectives of helping children in our communities thrive and live a better life. Accordingly, we sincerely hope that OSC takes seriously the following responses from AMC to each of the audit team's recommendations.

A. Fiscal Year 2012-13

As discussed, OSC's audit looks back nearly a full decade. In the interim period, AMC has experienced significant growth in programs and locations, the turnover of several controllers, a catastrophic flood, a change of financial software, and, most recently, a pandemic. The first year of the audit—fiscal year 2012-13—saw AMC undergoing major growth that resulted in significant organizational restructure. In addition, before fiscal year 2013-14, AMC outsourced its accounting and it therefore was not handled internally. Thus, when OSC began its audit more than seven years after fiscal year 2012-13, certain materials were neither recent nor easily accessible to AMC.

As this audit progressed, the pandemic raged aggressively, and it became a challenge just to keep the organization alive while trying to respond to the auditors at the same time—a shared difficulty that we hope OSC and SED will both consider. Given the circumstances of the audit and the fact that it looked back more than seven years, we request that the 2012-13 school year not be included in this audit.

Comment 2

2

The Draft Audit Report also suggests that AMC commingled funds in a manner that does not comply with applicable regulations. AMC challenges that conclusion and the ensuing disallowance recommendation. AMC has always operated with a chart of accounts and cost centers that break out each dollar of income and expense by natural category as well as respective funding sources. As we engage in transactions, we code each transaction to the appropriate natural category and funding source and then break it out into individual programs within the funding sources. AMC also tracks its transactions by site and location. We are very careful to review our reports to ensure that each transaction is captured correctly, and, should any corrections be necessary, we make the appropriate corrections into our general ledger system and issue revised reports. Comment 5

The organization has invested in software that is designed for non-profits and, in particular, for organizations that have multiple funding sources. Within the software that we use, our chart of accounts segregates each funded cash receipt and also tracks cash disbursement. Therefore, there cannot be any commingling of funds: The funds are all tracked separately, within the general ledger. The maintenance of multiple accounts within the chart of accounts is in place of having multiple bank accounts per funder. The funding sources do not have a requirement to have separate bank accounts for each of its programs, but there is a requirement to track the transactions separately per program, which AMC does on a daily basis. AMC has thousands of supporting documents and reports for the transactions that took place as well as that demonstrate how its funds are not comingled. Comment 5

In summary, AMC has actively cooperated with an audit that, at the outset, looked back more than seven years—across a period in which AMC underwent significant change. Given the circumstances of the audit, AMC requests that fiscal year 2012-13 not be included in the audit. In addition, in light of AMC's accounting system, the organization vigorously objects to OSC's finding of commingled funds and has documentation to demonstrate that this conclusion is unfounded. We therefore respectfully request that OSC adjust the Draft Audit Report to rescind any disallowances for fiscal year 2012-13. Comment 6

B. Fiscal Year 2013-14

1. Policies, Procedures, and Support for Payroll Expenses

With respect to fiscal year 2013-14, the Draft Audit Report indicates that AMC does not have adequate support for payroll costs that were submitted for reimbursement to SED. OSC selected several employees and had questions regarding AMC's documentation for them, and AMC responded in full to each of the questions. AMC disagrees with OSC's proposed conclusions in this respect and accordingly requests that OSC reconsider the disallowance recommendation included in the Draft Audit Report.

AMC operates in a prudent and transparent manner. Our finance team and our leadership team are cognizant of the rules of recordkeeping, documentation, and compliance in providing the program services. There is no doubt that all of our costs are reasonable, necessary, and

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directly related to the special education program and are sufficiently documented. There is also no doubt that our entire payroll is supported by payroll records and that the staff actually worked during those pay periods: As a side note, AMC simply could not sustain its heavy workload if our staff did not work full schedules. As anyone who operates these programs knows, they are labor intensive and cannot drive without everybody pitching in. Therefore, the notion that it is questionable about whether the staffed worked and the State funds were used on appropriate expenses is incorrect, as the funds were completely used for appropriate expenses.

Comment 7

Comment 8

The Draft Audit Report notes that AMC provides for employee flexibility concerning timekeeping. Importantly, though, AMC has specific guidelines on how time is tracked and provides a choice to its employees from this limited list of options so that we can maintain control and documentation of our employees' work product. One of the reasons that AMC provides this level of flexibility is because staff in this field can have a difficult time using the time entry software in a manner that professionals (such as doctors, accountants and lawyers) use to track every 15 minutes of what they do. AMC is also aware of the extreme staff shortage in our industry. Therefore, management determined in the interest of reducing turnover and maintaining staff satisfaction, that we provide them with options so that they can choose what works best for them, and we at AMC can monitor them accordingly and hold them accountable. We also know, as experienced operators of these programs, that individuals who punch in and out are not necessarily working all of the minutes in between those two punches and that the time clock is simply a way of seeing that they are in the building—not an indication of whether they worked. AMC therefore goes a step further to obtain actual specific tasks of the workload of its employees and believes that its documents are more impactful and illustrative than any basic timeclock records would be. On that note, AMC has also integrated timeclock requirements in recent years—but it should not be penalized for the practice that we have maintained.

AMC also contests OSC's characterization because the organization did, in fact, comply with RCM requirements. The RCM does not require timesheets showing "hours worked" specifically; rather, it requires employee "time records." AMC compensates its employees for their work: It could not stay in business if AMC team members collected paychecks without working. Accordingly, the state dollars were spent where they were supposed to be spent with the support of what they did to earn those funds that are more impactful then a simple punch-in and out report. To the extent the audit team would prefer different time records, that preference is not codified in the RCM requirements, and AMC should not be penalized for using a different—but also compliant—method.

Comment 9

In addition, AMC has more than adequately provided support for payroll expenses. During this process, AMC provided the auditors with;

- Time records with details of staff activities during the time periods that were selected for audit;
- Approved and documented payrolls accompanying the time records provided to the auditors;
- Calendars and daily tasks showing the day of the week, the date, and specific work tasks performed; and

- Session notes, emails, and additional documents corroborating the calendars and proving that these individuals worked the days being disallowed.[1]

Comment 10

Notably, the days showing missing timeclock punches were primarily holidays or had other reasons why the employee showed fewer hours on the timesheet. AMC's policy is that full-time employees are eligible for 96 hours of paid time off ("PTO"), which applies to time they are out of the office or where they receive payment for the respective time. Understandably, employees do not clock in and out for holidays and PTO hours. We have included in the email attachment on February 22, 2022, an updated file presenting the holiday dates and PTO hours paid that are not reflected on the raw clock-in and -out reports. In addition, the disallowed individuals are exempt employees with work performed during all of the workdays that were reported in support of the CFR.

During the pandemic, the entire world worked remotely. We have learned many lessons, and one of them is that people can work remotely and still be accountable for their work. The auditors themselves seem to have conducted their work in a remote setting. As described above, there is a very limited resource of individuals that (1) are well versed in the SEIT rules and regulations on the state and city level, (2) are credentialed, (3) have leadership skills, and (4) can monitor the programs appropriately. The company quickly learned that remote work settings are not contradictory either to high utilization of staff or to maintaining strong internal controls and a strong control environment over the individuals and their work product. Therefore, it is not surprising that AMC can manage to thrive with an individual who works remotely.

Accordingly, we ask that OSC rescind the proposed disallowances based on payroll expenses for fiscal year 2013-14.

Comment 11

2. Salary Documents Provided to SED and OSC

It is not out of the ordinary to prepare an initial document and then to realize change is necessary and issue a revised version. In such instances, it would make sense not to use the superseded version of the document: The drafter of the original document no longer views it as accurate and referring back to the original version can lead only to confusion. AMC has provided several documents to the audit team in both original and revised forms.

The Draft Audit Report recommends disallowing expenses based on differences between documents provided to SED and OSC. Critically, though, these were not "discrepancies"; rather, they reflected corrections made by AMC. As discussed with the auditors, the original list that was provided to SED documented all "administrative" employees, which a former controller

[1] AMC is not lacking in any support for its payroll expenses. However, regardless, we do not feel it is appropriate for OSC to word any disallowance as being based on "misused funds" or "inappropriate spending." In addition, we would like to point out that the methodology of calculating appropriate payroll expense based on the minutes of clocking in and out contradicts the labor laws concerning salaried exempt employees. As defined by US Department of Labor, and in accordance with the guidance from the labor lawyer, salaried exempt employees must be paid for the full scheduled work week. *See* https://www.dol.gov/sites/dolgov/files/WHD/legacy/files/fs17g_salary.pdf.

assumed should have been included in agency administration. During fiscal year 2013-14, the organization underwent significant expansion and transition, whereby certain individuals had to be heavily involved in AMC sites' administration. Therefore, at the time the list was submitted to SED, allocations were made about who was considered general admin while considering the many changes that occurred throughout the year. But when the revised CFR was submitted, the new controller reviewed and verified the data line by line to ensure that the list was accurate and to reflect what actually occurred. He also bifurcated the admin between agency and non-agency admin. Therefore, the support provided to OSC was correct and the CFR is well supported based on the support for the revised CFR that was submitted. AMC provided a precise version of the agency administrative employees in support of its CFR reported costs.

To reiterate, AMC initially submitted the fiscal year 2013-14 CFR and then, in coordination with SED, resubmitted at a later date. Clearly, when the initial CFR was submitted AMC had its set of supporting documents, and then when the CFR was resubmitted AMC made those revisions based on updated supporting documentation (as described above). OSC's preliminary finding is referring to documentation submitted to SED for the initial submission and not for the final submission. Since AMC resubmitted its CFR based on updated supporting documentation, it reasonably provided OSC with the correct support for the correct CFR.

Comment 12

In the course of the audit, AMC made available all SEIT files and records, though some of the selections were not direct SEIT files but rather general administration files and are in a different location. OSC staff indicated that they would make a second visit to review the administrative and additional vendor files, but they never returned. To facilitate OSC's review, AMC attached those personnel files and transaction supporting documents in an email on December 22, 2021. To the extent the timeframe of AMC's submission of documents raises a concern about timing of the submission, we ask OSC to consider the extreme effects of the pandemic during the audit period and the fact that AMC has nevertheless responded to the audit team's requests by providing thousands of documents for review in an orderly manner.

Finally, the fact that the totals are the same is a result of AMC working within the confines of the SED budgeting requirements. Under current SED requirements, AMC is limited on non-direct costs, which are heavily affected by agency administration costs and maintained at certain percentages. Any administrative costs exceeding those thresholds are not reimbursable. The costs in question represent those costs that exceed the relevant administrative threshold. The reason why the balance remained the same was that the organization understood that it had exceeded the allowable administrative limit for the SEIT program and, understanding that it would not receive additional reimbursement, opted to leave certain expenses in the "Other" column. The additional administrative costs were a direct result of start-up costs as when an organization undergoes an expansion, its administrative costs increase while the organization seeks to get the program off the ground. From a reimbursement perspective, these additional administrative costs made no impression on the SEIT program other than being more overspent. The benefit of reporting this way was to report our costs to our other funding sources more easily. Despite the fact that this does not affect the rate, the organization adopted the approach to include all of its administrative costs in the respective agency administration cost center.

Notably and as described above, when an organization undergoes an expansion, its administrative costs increase while the organization seeks to get the program off the ground. In pursuit of accuracy and prudence, AMC went through the exercise of correcting and resubmitting the information. Disallowing expenses on that basis would not be a 'just' outcome, and we therefore respectfully request that OSC reconsider its recommendation to disallow these costs based on the administrative staff list and to understand that the costs reported were fully supported, as described above. Comment 13

3. Site Approvals and Reimbursable Expenses

Throughout OSC's audit, AMC provided multiple documents supporting its sites and information relating to those sites. The OSC auditors also visited some of those sites. There is no doubt on this front: The sites exist and were utilized for the program and/or its administration. Therefore, there were no misused funds or questionable costs in relation to the program. Comment 14

The Draft Audit Report bases its disallowance recommendation on concerns about site approval. However, the costs reported for rent and utilities complied with the CFR manual's descriptions of what is an allowable expense for these line items and the RCM description of what is an allowable rent and utility expense. To the extent OSC views AMC as not having complied with site approval requirements, a full disallowance is an extreme and unjust penalty for otherwise permitted expenses. Comment 14

Furthermore, AMC had a reasonable basis for proceeding as it did. AMC understands the reading of the RCM and that non-instructional space can refer to program-related non-instructional space—like a principal's office and restrooms—and can also refer to admin, even though the RCM writes the word "administration" when it is discussing agency administrative costs. OSC reads the RCM as all-inclusive, but the RCM does not compel that reading. Having a SEIT provider with a different understanding is not a violation deserving of a disallowance—if anything, AMC should have the opportunity to gain clarity from OSC and SED regarding the agencies' expectations moving forward. Comment 14

In support of AMC's reading, the RCM states that new or renovated facility spaces, both instructional and non-instructional, to be occupied by approved programs in which space is new or substantially altered or result in capitalized costs in excess of $100,000 will require both program and fiscal designees' written approval prior to implementing. Here, AMC's costs did not exceed $100,000. Accordingly, the site referenced by the audit team should not be subject to the RCM requirement for documented approvals, as that relates to larger endeavors. To force this requirement on AMC's sites, OSC has combined the operation of seven different sites, totaling costs of $152,443—but this combination of costs was neither required nor justified by the circumstances of this audit. Comment 14

Furthermore, the audit team now recommends disallowance despite there being no dispute that AMC operated a SEIT program from these sites, which it did because it did not have

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any alternative site for such operations. AMC communicated directly with SED and other city and state officials on letterhead that included the addresses of these sites, and it provided documents that included the same addresses, demonstrating that officials were or should have been aware of AMC's operations at these sites. Given that AMC provided important (and permitted) services at these sites, to the extent any adjustment is necessary, it should be forward looking, rather than resulting in significant disallowances of past expenses.

Comment 14

C. Fiscal Year 2014-15

With respect to fiscal year 2014-15, the Draft Audit Report suggests that AMC did not provide certain materials relevant to OSC's audit. But AMC did provide the reconciliation between the general ledger and CFR for the correct CFR that was submitted, discussed, and reviewed by SED. AMC had no reason to believe that SED would not embrace the revised CFR that SED itself requested. SED certified the superseded CFR months into the OSC audit of the FY14-15 school year and two and a half years after AMC's submission of the revised CFR—even though it clearly did not accurately reflect AMC's cost structure for that year.

Comment 15

The revised CFR and crosswalk that you have in your file (submitted on March 22, 2018) represents the truth about the costs that you are being charged to audit. AMC submitted to you the correct, accurate, and supported CFR upon your request with the understanding that SED was going to facilitate the rate setting process based on the correct CFR. We want to reiterate that the corrected CFR was submitted 2 and half years prior to us learning that it was not accepted.

Accordingly, AMC participated in multiple OSC audit interviews and responded to numerous questions pertaining to the 2014-15 school year. In addition, we provided to the OSC auditors hundreds of supporting documents for the *correct* CFR, including without limitation: General Ledger, Crosswalk, Bank Statements, Credit Card Statements, Payroll Records, Staff Lists, Time Sheets, Audit reports, Student data, Organization Chart, Human Resources data, Personnel Files, Job Descriptions, Staff Lists, Salary Detailed by Name, Staff Allocation, and Fiscal Policies. We made available all vendor invoices and support for all cash disbursements, leases, lists of children per site, and lists of sites with all pertinent information and walked through the file room to make available all supporting documentation. In sum, the OSC audit team audited the correct version of our 2014-2015 CFR and are recommending disallowances based on the incorrect version.

Comment 15

Even if OSC makes a recommendation based on the lack of certification of the corrected CFR, a blanket disallowance would be extreme and inappropriate, because the differences between the two CFRs *are minimal*, and support for the relevant expenses was provided to the auditors.

Comment 16

Exhibit A to this letter provides a sample of differences between the two CFRs and relevant documentation we provided to explain the difference. But to reiterate, the difference between biggest expense (which was salary expense) on the two CFRs was less than $7,000—and OSC now recommends disallowing more than $3 million in expenses. That cannot be a

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‘just’ outcome in this process, and we cannot understand how OSC’s suggested disallowance coincides with the truth of AMC’s operations.

This is a make-or-break moment for AMC, and this potentially catastrophic disallowance appears to be based substantially on communication challenges between OSC’s audit team and SED. SED requested and AMC provided a revised CFR, and the revised CFR is fully supported. That SED did not provide the revised CFR to OSC, resulting in substantial waste of time and resources, should not result in a multi-million-dollar disallowance. To the extent the final audit report addresses this question at all, it should note that AMC has substantiated the corrected CFR even while SED provided only an outdated version.

For the other CFR agencies, such as OMH and OPWDD etc. it is typical for a CFR to be submitted and then if need be a letter is sent back to the provider agency with questions or requests for modifications and then a new CFR with a new DCN is generated and submitted and accepted. There’s nothing wrong with this practice and to the contrary, it encourages the State to work with accurate data while funding provider agencies.

We implore you to reconsider your approach on this matter, which alternatively would include accepting the support we provided to you, describing in your report the details of our narrative above and not arriving at a conclusion of disallowing the entire program. At minimum, salaries of which AMC substantiated to support should not be disallowed form the FY14-15 year, as outlined in Exhibit A.

Comment 16

Comment 15

Comment 16

Comment 17

Comment 16

III. Conclusion

Above all, AMC is committed to excellent service to its community and the children under its care. AMC has actively cooperated with OSC’s audit, focusing substantial resources on responding to the audit team’s requests. Of the Draft Audit Report’s recommended disallowances, several appear to be based on an incomplete consideration of the documents and information that AMC has provided to OSC. In addition, in many respects, the Draft Audit Report does not call into question that AMC did provide the serve that SED’s funding is meant to support. Notwithstanding that fact, OSC would recommend disallowing expenses in amounts that could potentially threaten AMC’s services in the future. A full review of the circumstances of this audit shows that such extreme disallowances would be improper and unjust. I hope that you and your office will take these responses seriously and will adjust the Draft Audit Report accordingly.

Comment 18

Comment 19

Sincerely,

Laurie Shaked

NOTE - AMC provided support for the CFR and in light of the myriad of documents provided we have demonstrated below on a sample of lines the detail provided to OSC auditors including salary, repairs and maintenance and rent. The numbers are well supported.			Outdated - Audited by OSC		
		DCN# 72771662	DCN# 69541835		
		Submitted - 3-22-18	Submitted 7-5-216		
		A	B	A-B=C	
LINE NUM	ITEM DESCRIPTION	SPECIAL ED	SPECIAL ED	Difference between CFR submissions	Date Support Submitted to OSC
16	Personal Services-Program/Site & Program Admin*	2,357,853	2,364,559	**(6,706)**	**A** - 14-15 Payroll support sent to Auditors on 1-31-20 **B** - Payroll Time sheets sent to Auditors on 9-23-2020 **C** - Personnel files were audited on 11-3-2021 **D** - Interviews were done in person and via Zoom **E** - Job descriptions were sent on 9-10-20 **F** - 14-15 Staff lists including titles, PTC codes, salary and allocation were sent on 2-10-20 **G** - AMCs 14-15 Organization Chart demonstrating each level and the hierarchy supporting the staff reported on the CFR was sent on 2-17-20 **H** - Salary in detail by name, staff allocation between CFR-1 and CFR3 and that agrees to the GL sent to auditors on 2-18-20 **I** - The difference in salary of 6,706 was an adjustment made and is immaterial.
22	Repairs and Maintenance	46,359	20,051	26,308	**A** - GL details provided to auditors 2-10-20 **B** - Vendor invoices available but never requested by OSC auditors **C** - Supporting memorandums and letters between vendor and AMC-available but never requested by OSC auditors **D** - Supporting cash disbursements for these costs-provided checks and bank statements sent to auditors on 7-29-20
23	Utilities	3,870	3,871	(1)	**A** - GL details provided to auditors 2-10-20 **B** - Vendor invoices available but never requested by OSC auditors **C** - checks and bank statements supporting payments were provided to auditors on 3-4-20
49	Lease/Rental - Real Property	62,922	62,923	(1)	**A** - AMC provided lease agreements for all sites sent on 10-20-21, 11-8-21 **B** - Breakdown of charges between rent, utilities etc. available not requested by OSC auditors **C** - Bank statements showing payments sent on 3-4-20 **D** - Lists of children per site sent on 2-14-20 **E** - Certificate of Occupancy for each site sent on 2-5-20 **F** - List of sites with locations, hours, etc. sent on 2-5-20, 2-14-20
92	4410 Revenue (Preschool) (SED only)	2,944,320	2,944,320	-	
95	**Gross Revenues (Sum Lines 69-94)**	**2,944,320**	**2,944,320**	-	

State Comptroller's Comments

1. Our report accurately reflects the audit process and AMC's failure to comply with SED guidelines, including the RCM.
2. The Regulations of the Commissioner of Education require entities operating approved programs to retain all pertinent accounting, allocation, and enrollment/attendance records supporting reported data directly or indirectly related to the establishment of tuition rates for 7 years following the end of each reporting year. When we began the audit, in January 2020, 7 years had not yet passed since the end of the earliest reporting year (fiscal year 2012-13) under audit. Therefore, AMC was required to retain documentation to support expenses claimed for all 3 audit years.
3. We disagree with AMC's assertion. As discussed in our report, AMC did not provide several required documents. For example, AMC did not provide general ledger reconciliations for the 2012-13 CFR, 2013-14 agency administration fringe benefits, and the SED-approved 2014-15 CFR.
4. We disagree. We provided preliminary copies of our audit findings to AMC officials for their review and comment. Their comments were considered in preparing our draft report and final report. The OSC Audit Director, Audit Manager, and Audit Supervisor assigned to the audit never changed. Because of significant delays initiated by AMC, some OSC audit staff were reassigned to more productive activities. However, they were available to and provided assistance on the AMC audit, as needed.
5. The basis for our disallowances for this fiscal year was that AMC officials did not provide us with the general ledger, reconciliation between the general ledger and CFR, and certain other requested documentation to support the expenses reported on the CFR. As stated in our report, it was AMC's independent accountants that reported having discovered several inter-program transfers of funds.
6. We stand by our recommended 2012-13 disallowances. AMC officials did not provide us with the general ledger, reconciliation between the general ledger and CFR, and certain other requested documentation to support the expenses reported on the CFR. These are basic documents that AMC was required to maintain.
7. As indicated in our report, not all of AMC's costs were reasonable, necessary, directly related to the special education program, and sufficiently documented.
8. As indicated in our report, not all of AMC's payroll was supported by payroll records and documentation of hours worked.
9. The documents that AMC provided for certain employees did not contain any beginning times, ending times, or number of hours worked per day, which are the components needed to determine hours worked. Since AMC officials did not support the hours worked for these employees, their salary costs were not reimbursable under the requirements in the RCM.
10. As indicated in our report, these records did not contain any beginning times, ending times, or number of hours worked per day, which are the components needed to determine hours worked. Since AMC officials did not support the hours worked for these employees, their salary costs were not reimbursable under the requirements in the RCM.

11. We reviewed additional documentation and modified our report, as appropriate.

12. We note the agency administration salaries totaled $1,204,571 on only one 2013-14 CFR submission – the latest 2013-14 CFR submitted by AMC to SED. Although the employee lists provided to SED and OSC tied in to the $1,204,571, the names of the employees and the salary amounts differed significantly. Therefore, we were unable to determine which salary expenses were actually claimed for reimbursement.

13. We disagree that these costs were fully supported. As indicated in the report, AMC officials provided conflicting information to SED and OSC in support of agency administration salaries.

14. The expenses related to these unapproved sites were not reimbursable. According to the RCM, providers must obtain written approval from SED for program expansion requiring additional property-related costs, classroom equipment, etc. when the cost is expected to be reimbursed fully or partially through the tuition rate. Instructional and non-instructional space to be occupied by approved programs in which space is new or substantially altered will require written approval from SED prior to implementing. AMC officials acknowledged that AMC significantly expanded, adding new locations during the audit years. Therefore, AMC officials were required to obtain SED approval for these new locations.

15. OSC audits SED-approved CFRs used to set tuition rates. AMC officials did not provide a general ledger reconciliation for the 2014-15 SED-approved CFR used to set AMC's tuition rate.

16. We disagree that the differences were minimal. Absent supporting documentation that reconciles with the SED-approved CFR, we are unable to determine which expenses were accurate and actually claimed for reimbursement.

17. OSC audits SED-approved CFRs used to set tuition rates.

18. We disagree. Our disallowances were based on AMC's non-compliance with SED guidelines, including the RCM.

19. We are unable to state if AMC provided the services that AMC funding is meant to support as that was not the focus of the audit. Our disallowances were based on AMC's non-compliance with SED guidelines, including the RCM.

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