



New York State Comptroller
THOMAS P. DiNAPOLI

Kids in Action of Long Island, Inc. – Compliance With the Reimbursable Cost Manual

State Education Department

Report 2021-S-13 | March 2022

Spotlight on Education



Audit Highlights

Objective

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

About the Program

Kids in Action is a for-profit organization located in Suffolk County, Long Island. Among other programs, Kids in Action provides preschool Special Education Itinerant Teacher (SEIT) services to children with disabilities who are between 3 and 4 years of age. Kids in Action is reimbursed for these services through rates set by SED. Kids in Action also operated a Department of Health-approved program (Early Intervention); however, payments for services under this program are based on fixed fees. The reimbursement rates for the SEIT program are based on financial information, including costs, that Kids in Action reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with the RCM requirements. For the fiscal year ended June 30, 2015, Kids in Action reported \$393,508 in reimbursable costs on its CFR for the SEIT program that it operated.

Key Findings

For the fiscal year ended June 30, 2015, we identified \$41,897 in ineligible costs reported by Kids in Action on its CFR for the SEIT program. The ineligible costs included:

- \$31,968 in personal service costs, consisting of \$25,704 in overallocated compensation for office workers charged directly to the SEIT program, \$3,818 in compensation not sufficiently supported by employee time records, and \$2,446 in non-program-related compensation.
- \$9,929 in other than personal service costs, consisting of \$6,867 in expenses that were not adequately supported by allocation methodologies or receipts, \$2,290 in non-allowable telephone service fees, \$452 in excess mileage expenses, and \$320 in other ineligible costs.

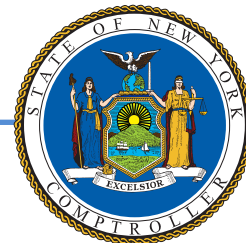
Key Recommendations

To SED:

- Review the disallowances identified by our audit and make the necessary adjustments to the costs reported on Kids in Action's CFR and to Kids in Action's tuition reimbursement rates, as appropriate.
- Remind Kids in Action officials of the pertinent SED guidelines that relate to the deficiencies we cited.

To Kids in Action:

- 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

March 4, 2022

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

Valerie Mace
Executive Director
Kids in Action of Long Island, Inc.
252 Islip Avenue
Islip, NY 11751

Dear Dr. Rosa and Ms. Mace:

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 costs submitted by Kids in Action of Long Island, Inc. to the State Education Department for the purpose of establishing the preschool special education tuition reimbursement rates used to bill public funding sources that are supported by State aid payments. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 4410-c of the State Education Law.

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

Respectfully submitted,

Division of State Government Accountability

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Glossary of Terms

Term	Description	Identifier
CFR	Consolidated Fiscal Report	<i>Key Term</i>
CFR Manual	Consolidated Fiscal Reporting and Claiming Manual	<i>Policy</i>
IRS	Internal Revenue Service	<i>Federal Agency</i>
Kids in Action	Kids in Action of Long Island, Inc.	<i>Service Provider</i>
OTPS	Other than personal service	<i>Key Term</i>
RCM	Reimbursable Cost Manual	<i>Policy</i>
SED	State Education Department	<i>Auditee</i>
SEIT	Special Education Itinerant Teacher	<i>Key Term</i>

Background

Kids in Action of Long Island, Inc. (Kids in Action) is a for-profit organization located in Suffolk County. Kids in Action is authorized by the State Education Department (SED) to provide, among other programs, preschool Special Education Itinerant Teacher (SEIT) services to children with disabilities who are between 3 and 4 years of age. During the fiscal year ended June 30, 2015, Kids in Action's SEIT program served 39 children with disabilities. Kids in Action also operated a Department of Health-approved program (Early Intervention). However, payments for services under this program are based on fixed fees.

The counties that use Kids in Action's SEIT program pay tuition to Kids in Action using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5% of the tuition paid. SED sets the special education rates based on financial information, including costs, reported by Kids in Action on the annual Consolidated Fiscal Report (CFR) that it submits to SED. Costs reported on the CFR must comply fully with the guidelines in SED's Reimbursable Cost Manual (RCM) regarding eligibility and documentation requirements, and must meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2015, Kids in Action reported \$393,508 in reimbursable costs for the SEIT program on its CFR.

Audit Findings and Recommendations

According to the RCM, costs reported on the CFR will be considered for reimbursement provided they are reasonable, necessary, directly related to the special education program, and sufficiently documented. For the fiscal year ended June 30, 2015, we identified \$41,897 in costs that Kids in Action reported on its CFR that did not comply with SED's requirements for reimbursement. The ineligible costs included \$31,968 in personal service costs and \$9,929 in other than personal service (OTPS) costs. A summary of the ineligible costs is presented in the Exhibit at the end of this report.

Personal Service Costs

Personal service costs, which include all salaries and fringe benefits paid or accrued to employees on the service provider's payroll, must be reported on the CFR as either direct care costs (e.g., teachers' salaries) or non-direct care costs (e.g., administrators' salaries). For the fiscal year ended June 30, 2015, Kids in Action reported \$360,520 in personal service costs for the SEIT program. We identified \$31,968 in personal service costs that did not comply with the RCM's requirements for reimbursement.

Excessive Allocation

According to the RCM, compensation of individuals who work on multiple programs must be allocated across all programs benefited by the expenditure. Entities must use allocation methods that are fair and reasonable and maintain appropriate documentation reflecting the hours used in this allocation. Acceptable documentation may include payroll records or time studies. If hours of service cannot be calculated or a time study cannot be completed, then other fair and reasonable allocation methods may be utilized. One method, ratio value allocation, is approved by SED to allocate the administration costs to programs. This method of allocation distributes shared costs as a percentage of the agency's total operating costs.

We reviewed supporting documentation for Kids in Action's four office workers and found insufficient support for the direct hours charged to the SEIT program. We determined that the salaries and fringe benefits charged to the SEIT program should have been charged as agency administration expenses. After applying the ratio value, we determined that the unsupported direct charges resulted in an overstatement of \$25,704 (\$24,064 salaries and \$1,640 in fringe benefits) charged to the SEIT program for the four office workers.

Unsupported Costs

The RCM states that the allocation of compensation for non-direct care staff must be supported by time and activity records that detail the time spent and actual work performed by the employee. Further, the records must be signed or electronically approved and dated by the employee and the employee's direct supervisor. We reviewed time sheets for Kids in Action's supervising SEIT teacher and found they

did not contain details of the work performed, nor were they signed by a supervisor. The unsupported salary for this position charged to the SEIT program totaled \$3,818.

Non-Program-Related Compensation

The RCM states that costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the education program, and sufficiently documented. In addition to operating the SEIT program, Kids in Action also operated a preschool Early Intervention program. We found that two teachers whose salaries were charged to the SEIT program did not work with students in the SEIT program; rather, these two teachers worked with students in the Early Intervention program. The total disallowance for the non-program-related salaries is \$2,446 (\$2,308 in salaries and \$138 in fringe benefits).

Other Than Personal Service Costs

For the fiscal year ended June 30, 2015, Kids in Action reported \$32,988 in OTPS costs for the SEIT program. We identified \$9,929 in OTPS costs charged to the SEIT program that were not allowable under SED's reimbursement requirements.

Inadequate Allocation Methodologies

According to the RCM, any expenditures that cannot be charged directly to a specific program must be allocated across all programs benefited by the expenditure. The allocation methodology must be fair and reasonable and adequate documentation must be maintained. 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 7 years. Further, the RCM states that costs will not be reimbursable on field audit without appropriate written documentation. For the fiscal year ended June 30, 2015, we identified \$4,522 in OTPS costs that did not comply with RCM requirements because Kids in Action did not have adequate supporting documentation for its allocation methodologies.

We found Kids in Action did not maintain adequate documentation of allocation methodologies used for office supplies, lease/rental equipment, or staff travel expenses. Kids in Action officials stated that office supply expense allocations were verbally communicated to their bookkeeper when receipts were submitted; they were not written down. Additionally, none of the receipts we reviewed for a sample of office supply expenses indicated which items were purchased for the SEIT program and which items were purchased for administrative purposes. Similarly, Kids in Action could not provide support for the allocations used to calculate the allocation percentages for its lease/rental equipment, and we found the descriptions of the trips in Kids in Action's staff travel log did not support direct charges to the SEIT program. Officials stated allocation percentages for lease/rental equipment and staff travel were all estimates and documented support for the allocations did not exist. After applying the ratio value, we determined that \$4,522 in ineligible OTPS expenses were allocated to the SEIT program due to inadequate allocation methodologies.

Specifically, we found \$2,286 in ineligible office supplies, \$1,400 in ineligible lease/rental equipment, and \$836 in ineligible staff travel.

Unsupported Purchases and Agency Administration Ineligible Expenses

The RCM states all purchases must be supported with canceled checks and invoices listing the items purchased, date of purchase, and date of payment. Costs must be charged directly to specific programs whenever possible, and the program(s) must be identified on invoices or associated documents.

We requested supporting documentation for samples of direct care, administrative, and office supply expenses found on Kids in Action's general ledger, totaling \$26,161. Kids in Action could not provide supporting documentation listing the items purchased, date of purchase, and date of payment for 63 transactions in our sample, totaling \$7,498. This total included \$493 in direct care expenses and \$7,005 in agency administration expenses. After applying the ratio value, we determined that \$1,852 in ineligible agency administration expenses were allocated to the SEIT program. Thus, the non-reimbursable direct and agency administration expenses for unsupported purchases totaled \$2,345.

For the \$18,663 in sampled costs for which Kids in Action was able to provide supporting documentation, we identified \$1,210 in ineligible costs, including car washes, clothing, food items, gifts, and other expenses, that were not reasonable, necessary, and directly related to the SEIT program. After applying the ratio value, we determined that \$320 in non-allowable agency administration expenses were allocated to the SEIT program.

Direct Telephone/Cellphone Service Charges

We identified a total of \$2,290 of unallowable telephone charges.

Kids in Action directly charged \$494 in telephone/cellphone service fees to the SEIT program for a landline. Kids in Action could not provide support for the allocation percentage used to calculate the direct charges to the SEIT program for its landline expenses. After applying the ratio value, we determined that \$364 in ineligible agency administrative telephone expenses were charged to the SEIT program.

Further, the RCM states that costs incurred for telephone/cellphone service are reimbursable if they are used primarily in furtherance of the operation of the special education program. Any personal use of the devices must meet the de minimis fringe benefit standard as established by the Internal Revenue Service (IRS). We found Kids in Action could not demonstrate that its cellphones were used primarily in furtherance of the operation of the SEIT program. For example, our review of invoices for telephone expenses found statements were not billed directly to the provider's address. Kids in Action officials stated they did not have separate cellphones for Kids in Action and conducted a lot of work on their personal

cellphones. We calculated the non-reimbursable amount for costs related to personal use of cellphones to be \$1,926.

Excess Mileage

According to the RCM, use of privately owned vehicles for program business by employees will be compensated at a rate not to exceed the mileage rate allowed by the IRS. We reviewed Kids in Action's travel log and found the mileage reimbursement exceeded the mileage rate allowed by the IRS. Kids in Action overstated staff travel expenses by \$1,708. After applying the ratio value, we determined the ineligible mileage expenses charged to the SEIT program to be \$452.

Other Matters

According to SED policy, each preschool program authorized to provide SEIT services must have an employer–employee relationship with the special education teachers providing SEIT services. We reviewed tax forms for Kids in Action's SEIT teachers and found Kids in Action employed two of its SEIT teachers as independent contractors and did not maintain employer–employee relationships with the teachers, as required.

Recommendations

To SED:

1. Review the disallowances identified by our audit and make the necessary adjustments to the costs reported on Kids in Action's CFR and to Kids in Action's tuition reimbursement rates, as appropriate.
2. Remind Kids in Action officials of the pertinent SED guidelines that relate to the deficiencies we cited.

To Kids in Action:

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 Kids in Action on its CFR were properly calculated, adequately documented, and allowable under SED's guidelines, including the RCM and the CFR Manual. The audit covered expenses reported on Kids in Action's CFR for the fiscal year ended June 30, 2015.

To accomplish our objective, we reviewed the RCM, CFR Manual, and related appendices that applied to the fiscal year we examined. We also evaluated the internal controls over the costs claimed on and the schedules prepared in support of the CFR submitted to SED. We evaluated Kids in Action's internal controls as they related to costs it reported on its CFR. We reviewed Kids in Action's CFR for the fiscal year ended June 30, 2015, as well as credit card statements and other relevant financial records for the audit period. We interviewed Kids in Action officials to obtain an understanding of their practices for reporting costs on the CFR. We reviewed personal services documentation, including hiring packages, billing statements, pay stubs, attendance sheets, time sheets, and tax forms. We reviewed costs considered to be high risk and reimbursable in limited circumstances based on prior audit report findings, such as direct care, administration, office supply expenses, food, and mileage. The results of these judgmental samples cannot be projected to the population as a whole. For other expenses (e.g., telephone/cellphone costs), we disallowed costs identified in those categories.

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 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 performance audit of SED's oversight and administration of Kids in Action's compliance with the RCM.

Reporting Requirements

We provided a draft copy of this report to SED and Kids in Action officials for their review and formal comment. We considered their comments in preparing this report and have included them in their entirety at the end of the report. In SED's response, officials agreed with the audit recommendations and indicated the actions they will take to address them. Kids in Action officials generally agreed with our disallowances regarding personal service and OTPS costs. However, they disagreed with disallowances related to maintaining adequate documentation and cellphone usage. Our responses to certain Kids in Action 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

Kids in Action of Long Island, Inc.
Schedule of Submitted and Disallowed Program Costs
for the Fiscal Year Ended June 30, 2015

Program Costs	Amount per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services	\$360,520	\$31,968	\$328,552	A, C, F, J, K, M–O
Other Than Personal Services	32,988	9,929	23,059	A, B, D, E, G, H, I, L–O
Total Program Costs	\$393,508	\$41,897	\$351,611	

Notes to Exhibit

The following Notes refer to specific sections of the RCM that we used as a basis for our recommended disallowances. We summarized the applicable sections to explain the basis for each disallowance. We provided the details supporting our recommended disallowances to SED and Kids in Action during the course of the audit.

- A. RCM Section II – Costs are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and sufficiently documented.
- B. RCM Section II.11 – Ordinary living expenses, such as the cost of clothing and uniforms that are normally assumed by parents or legal guardians of students attending day care centers or public day schools, are not reimbursable.
- C. RCM Section II.13.A.4.(d) – The allocation of compensation for non-direct care staff, under the 500 and 600 position title code series per Appendix R of the CFR Manual, 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.
 - They must be signed or electronically approved and dated by the employee and employee's direct supervisor.
- D. RCM Section II.22.D – Food costs will not be reimbursed for special education itinerant programs, unless required by the student's Individualized Education Program as an instructional supply.
- E. RCM Section II.24 – Gifts of any kind are non-reimbursable.
- F. RCM Section II.48.B – Expenditures for related service, as defined in Section 4410(1)(J) of the Education Law and Section 200.1(qq) of the Regulations of the Commissioner of Education, are not reimbursable in the calculation of tuition rates for SEIT services.
- G. RCM Section II.57.A – Costs incurred for telephone/cellphone service are reimbursable provided that they are used primarily in furtherance of the operation of the special education program. In the case of cellphone data and text messaging charges, providers must demonstrate the business necessity for such additional cellphone features and that the cost of the plan(s) is no greater than necessary to meet the provider's business needs. Any personal use of the devices must meet the de minimis fringe benefit standard, as established by the IRS.
- H. RCM Section II.57.B – Costs for telephone/cellphone service are subject to the non-direct care cost parameter.
- I. RCM Section II.59.D.3 – Use of privately owned vehicles for program business by employees will be compensated at a rate not to exceed the mileage rate allowed by the IRS. Maintenance costs incurred by employees for privately owned vehicles are not reimbursable.

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- J. RCM Section III.1.A – Compensation costs must be based on approved, documented payrolls. Payroll must be supported by employee time records. Employee time sheets must be signed by the employee and a supervisor.
 - K. RCM Section III.1.B – Actual hours of service are the preferred statistical basis upon which to allocate salaries and fringe benefits for shared staff who work on multiple programs. Entities must maintain appropriate documentation reflecting the hours used in this allocation. Acceptable documentation may include payroll records or time studies. Documentation for all allocation methods must be retained for a minimum of 7 years.
 - L. RCM Section III.1.D – All purchases must be supported with canceled checks and invoices listing the items purchased, date of purchase, and date of payment. Costs must be charged directly to specific programs whenever possible. The particular program(s) must be identified on invoices or associated documents.
 - M. RCM Section III.1.M.1 – Any expenditures that cannot be charged directly to a specific program must be allocated across all programs and/or entities benefited by the expenditure.
 - N. RCM Section III.1.M.2 – Entities operating programs must use allocation methods that are fair and reasonable. Such allocation methods must be documented, reviewed on an annual basis, and adjusted as necessary.
 - O. RCM Section III.1.M.3 – Agency administration costs shall be allocated to all programs operated by the entity based on the ratio value method of allocation.

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

February 15, 2022

Mr. Brian Reilly
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State St, 11th Floor
Albany, NY 12236

Dear Mr. Reilly:

The following is the New York State Education Department's (SED) response to the draft audit report, 2021-S-13, *Kids in Action of Long Island, Inc. (Kids in Action) - Compliance with the Reimbursable Cost Manual*.

Recommendation 1:

"Review the disallowances identified by our audit and make the necessary adjustments to the costs reported on Kids in Action's CFR and to Kids in Action's tuition reimbursement rates, as appropriate."

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 Kids in Action officials of the pertinent SED guidelines that relate to the deficiencies we cited."

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

cc: Christopher Suriano
Suzanne Bolling
Nell Brady
Brian Zawistowski
Jerry Nestleroad
James Kampf
Jeanne Day

Agency Comments - Kids in Action



KIDS IN ACTION
of Long Island, Inc.

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Valerie Mace, Executive Director
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March 1, 2022

VIA ELECTRONIC MAIL

Theresa Podagrosi, Audit Manager
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, New York 12236-0001

Re: Kids in Action//2021-S-013
Compliance with the Reimbursable Cost Manual

Dear Ms. Podagrosi,

We have reviewed the above-referenced Draft Report relating to whether the costs reported by Kids in Action on its Consolidated Fiscal Report (CFR) for the fiscal year ending June 30, 2015, 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 certain identified audit conditions, findings and recommendations.

Personal Service Costs

Allocation of Office Employee Wages

We do not challenge the auditors' findings regarding the allocation of office employee wages allocated directly to the SEIT (program 9135) which lacked differentiation between hours worked on separate programs and agency administration. As a result, the auditors

Theresa Podagrosi

March 1, 2022

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reclassified these staff members from program administration in program 9135 to agency administration.

To add context, as Kids in Action is small agency, many of its office workers work directly within programs to perform clerical support/billing activities. The previous preparer of Kids in Action's Consolidated Fiscal Report charged these staff directly to programmatic areas. Subsequent to the year under audit, Kids in Action hired a fiscal consultant with more experience and knowledge of the Reimbursable Cost Manual and has worked with Kids in Action to improve its overall documentation to support its allocations of both personal and OTPS cost reported on its annual cost report.

Allocation of Related Services Wages

We do not challenge the auditors' findings that two of the teachers with hours charged to program 9135 did not work with students in program 9135.

Documentation of SEIT Supervising Teacher Hours

Kids in Action provided to the auditors supervising teacher billings for the full amount charged on the CFR. While we acknowledge that you identified that the supervising teacher's billing report submitted lacked adequate documentation based upon your standards or were not signed by the employee's supervisor, this staff member provided appropriate supervision of teachers during the year for the full amount of compensation paid to him. Furthermore, all supervising teacher's bills are reviewed by Kids in Action's Executive Director who is intimately involved in all aspects of the organization and the duties and responsibility of this employee. As such we request that the \$3,818 of disallowed cost be reinstated.

[Comment 1](#)

Independent Contractors Providing SEIT Services

Kids in Action believes this finding relates to the finding "Allocation of Related Services Wages" and requests further information as Kids in Action is well aware that any provider providing SEIT services must be an employee (i.e. W-2) and not a 1099 contractor.

[Comment 2](#)

Other Than Personal Service Costs

Inadequately Documented Allocation Methodologies

We do not challenge the auditors' recasting of certain office supply expenses between program administration and agency administration.

Unsupported Purchases and Ineligible Costs

While we understand the need to properly maintain appropriate financial records, please understand that Kids in Action has limited space available and as such does not maintain documentation beyond its document retention policy. As such, Kids in Action does not believe that it should be penalized for missing documentation that was not retained in

Theresa Podagrosi

March 1, 2022

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accordance with its document retention policy and the statute of limitations. Furthermore, we agree that certain newer documentation was inadvertently disposed of, and while we understand the need to properly retain documentation, we would like to reiterate that these expenses are valid programmatic expenditures of the School. Furthermore, we are not contesting certain disallowed office supply and credit charges classified by the OSC auditors as non-allowable expenses as the supporting receipts could not be located.

[Comment 3](#)

The OSC auditors disallowed \$1,926 of cell phone charges for certain staff members of the School. Kids in Action reiterates that the staff members whose phones are reimbursed are frequently travelling on behalf of Kids in Action and the phones are necessary to stay in communication with them throughout the day. Cell phones are an essential component of business today. In support of this, SED has since modified the RCM with respect to the use and allowability of cell phones. As a result, Kids in Action requests that the \$1,926 of cell phone disallowances be reinstated.

[Comment 4](#)

With respect to travel, Kids in Action does not challenge the auditor's findings with respect to mileage reimbursement.

Finally, while we acknowledge that the OSC identified \$42,632 of disallowed costs for the 2014/15 school year, the CFR, as filed by Kids in Action, contained a total cost screen for the year of \$68,196. As such none of the costs disallowed by the audit were funded by SED.

Should you have any additional questions, or require additional supporting documentation, please do not hesitate to contact us.

We appreciate the opportunity to provide these comments to the Draft Findings.

Sincerely,



Valerie Mace, Executive Director
Kids In Action of Long Island, Inc.

State Comptroller's Comments

1. "Adequate documentation" is not based on our standards, but rather on what the RCM requires. The RCM states that the allocation of compensation for non-direct care staff must be supported by time and activity records that detail the time spent and actual work performed by the employee. Further, the records must be signed or electronically approved and dated by the employee and the employee's direct supervisor. While the Executive Director may review all supervising teachers' bills, we were not provided with any evidence that this occurred.
2. This finding was discussed with Kids in Action officials in October 2021 and also via email in December 2021. In response to the email, Kids in Action requested additional information, which was provided. Kids in Action's accounting firm responded to the email that they agreed with the finding. Lastly, the finding was discussed at our closing conference with Kids in Action late in December 2021.
3. The RCM requires 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. All documentation requested from the school was for purchases made within the 7-year retention period.
4. We acknowledge SED has modified the RCM with respect to the use and allowability of cellphones. However, as we are auditing the fiscal year ended June 30, 2015, we measured against the requirements of the 2014-15 RCM.

Contributors to Report

Executive Team

Andrea C. Miller - *Executive Deputy Comptroller*

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