



New York State Comptroller  
**THOMAS P. DiNAPOLI**

# **St. Mary's Hospital for Children, Inc.: Compliance With the Reimbursable Cost Manual**

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State Education Department

Report 2021-S-38 | November 2022

Spotlight on Education



# Audit Highlights

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## Objective

To determine whether the costs reported by St. Mary's Hospital for Children, Inc. (St. Mary's) on its Consolidated Fiscal Reports (CFRs) were reasonable, necessary, directly related to the special education program, and sufficiently documented 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 focused primarily on expenses claimed on St. Mary's CFR for the calendar year ended December 31, 2019 and certain expenses claimed on its CFRs for the 2 calendar years ended December 31, 2018.

## About the Program

St. Mary's is a not-for-profit organization authorized by SED to provide full-day Special Class services to children with disabilities between the ages of 3 and 4 years. For the purposes of this report, the program we reviewed is referred to as the SED preschool cost-based program. During calendar year 2019, St. Mary's served approximately 131 students. To be eligible for reimbursement, reported costs must comply with the RCM requirements. St. Mary's also operates other programs, including Special Education Itinerant Teacher, Evaluations, 1:1 Aides, Related Services, and Early Intervention. However, payments for services under these programs are based on fixed fees, as opposed to the cost-based rates established through financial information reported on CFRs. St. Mary's is a subsidiary of St. Mary's Healthcare System for Children, Inc., a not-for-profit organization that provides inpatient care, facility-based services, and community programs.

The New York City Department of Education (DOE) refers students to St. Mary's and pays for its services using rates established by SED. The rates are based on the financial information St. Mary's reports to SED on its annual CFRs. For the 3 calendar years ended December 31, 2019, St. Mary's reported approximately \$12 million in reimbursable costs for the SED preschool cost-based program.

## Key Findings

For the 3 calendar years ended December 31, 2019, we identified \$257,142 in reported costs that did not comply with the requirements in the RCM and the CFR Manual, as follows:

- \$150,752 in overallocated bank charges related to the construction of a new patient care pavilion;
- \$90,301 in executive compensation expenses that were above the regional median;
- \$8,183 in ineligible expenses including lobbying costs, food for staff, building violations, and vehicle expenses;
- \$4,849 in valet parking services that were neither reasonable nor directly related to the SED preschool cost-based program;
- \$2,372 in overstated non-mandated fringe benefits; and
- \$685 in staffing expenses that were in excess of the approved ratios.

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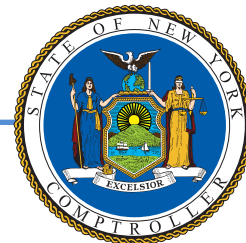
## Key Recommendations

### To SED:

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

### To St. Mary's:

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



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

November 9, 2022

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

Edward Simpser, M.D.  
Chief Executive Officer  
St. Mary's Hospital for Children, Inc.  
29-01 216th Street  
Bayside, NY 11360

Dear Dr. Rosa and Dr. Simpser:

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

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

Respectfully submitted,

*Division of State Government Accountability*

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# Glossary of Terms

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<b>Term</b>	<b>Description</b>	<b>Identifier</b>
SED	State Education Department	<i>Auditee</i>
CFR	Consolidated Fiscal Report	<i>Key Term</i>
CFR Manual	Consolidated Fiscal Reporting and Claiming Manual	<i>Policy</i>
DOE	New York City Department of Education	<i>Agency</i>
FTE	Full-time equivalent	<i>Key Term</i>
OTPS	Other than personal service	<i>Key Term</i>
RCM	Reimbursable Cost Manual	<i>Policy</i>
St. Mary's	St. Mary's Hospital for Children, Inc.	<i>Service Provider</i>

# Background

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St. Mary's Hospital for Children, Inc. (St. Mary's) is a New York City-based not-for-profit organization authorized by the State Education Department (SED) to provide full-day Special Class services to children with disabilities who are between the ages of 3 and 4 years. For the purposes of this report, this program is referred to as the SED preschool cost-based program. During the calendar year ended December 31, 2019, St. Mary's served approximately 131 students.

In addition to the SED preschool cost-based program, St. Mary's also operated other programs, including Special Education Itinerant Teacher, Evaluations, 1:1 Aides, Related Services, and Early Intervention. However, payments for services under these programs are based on fixed fees, as opposed to the cost-based rates established through financial information reported on Consolidated Fiscal Reports (CFRs). St. Mary's is a subsidiary of St. Mary's Healthcare System for Children, Inc., a not-for-profit organization that provides inpatient care, facility-based services, and community programs.

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

For the 3 calendar years ended December 31, 2019, St. Mary's reported approximately \$12 million in reimbursable costs for the SED preschool cost-based program. This audit focused primarily on expenses that St. Mary's claimed on its CFR for calendar year ended December 31, 2019, but also included certain expenses claimed on its CFRs for the 2 calendar years ended December 31, 2018.

# Audit Findings and Recommendations

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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 calendar years ended December 31, 2019, we identified \$257,142 in reported costs that did not comply with SED's requirements for reimbursement. These ineligible costs include \$93,358 in personal service costs and \$163,784 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 St. Mary's internal controls over its compliance with SED's guidelines.

## Personal Service Costs

Personal service costs, which include all salaries and fringe benefits paid or accrued to employees on the service provider's payroll, must be reported on the CFR as either direct care costs (e.g., teachers' salaries) or non-direct care costs (e.g., administrators' salaries). For the 3 calendar years ended December 31, 2019, St. Mary's reported approximately \$8.8 million in personal service costs for the SED preschool cost-based program. We identified \$93,358 in personal service costs that did not comply with the RCM's requirements for reimbursement.

## Excess Executive Compensation

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

For the 3 calendar years ended December 31, 2019, St. Mary's reported \$4,755,757 (\$1,715,522 in 2019, \$1,537,098 in 2018, and \$1,503,137 in 2017) in compensation for its Executive Director and Assistant Executive Director. However, the total regional median reimbursement limit for those positions for the 3 years was \$1,877,382. Consequently, their compensation exceeded SED's limits by \$2,878,375 (\$4,755,757 - \$1,877,382). We recommend that SED disallow \$90,301, the portion of the excessive compensation that was allocated to the SED preschool cost-based program. We note that SED had previously disallowed these costs.



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## Overstated Non-Mandated Fringe Benefits

The RCM states that fringe benefits will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. We found \$2,372 in fringe benefits that did not meet the requirements of the RCM.

We compared the fringe benefit costs reported on St. Mary's CFRs for the 3 calendar years ended December 31, 2019 with the corresponding expenses reported on St. Mary's general ledgers. We determined that St. Mary's overstated the non-mandated fringe benefit costs for the SED preschool cost-based program by \$2,372. St. Mary's officials stated this was due to a formula error. Therefore, we recommend SED disallow the \$2,372 in overstated costs.

## Excess Student-to-Staff Ratios

SED program approval letters establish the direct care student-to-staff ratios under which preschool special education classrooms are to operate. SED reviews all staffing levels on a fiscal year basis. According to the RCM, direct care personnel costs in excess of the approved ratios are not reimbursable.

We compared St. Mary's staffing levels reported on its CFRs to the SED-approved staffing levels. For the fiscal year ending June 30, 2019, the SED-approved staffing level for St. Mary's teachers was 7.833 full-time equivalents (FTEs). However, St. Mary's reported 7.841 teacher FTEs on its CFR. The compensation associated with the excess teachers amounted to \$685 (\$509 in salaries and \$176 in fringe benefits).

Consequently, we recommend that SED disallow \$685 in compensation related to excess staffing of teachers that did not comply with the RCM's requirements.

## Other Than Personal Service Costs

According to the RCM, costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. For the 3 calendar years ended December 31, 2019, St. Mary's reported approximately \$2.9 million in OTPS expenses for its SED preschool cost-based program. To determine whether these expenses complied with SED's requirements for reimbursement, we judgmentally selected a sample totaling approximately \$259,942 in OTPS expenses. We identified \$163,784 of these expenses that did not comply with SED's reimbursement requirements.

## Overallocated Bank Charges

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. Additionally, the CFR Manual states that agency administration costs include all the administrative costs that are not directly related to specific programs/sites but are attributable to the overall operation of

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the agency. Further, all attempts should be made to directly charge an expense to the appropriate cost center. Any expenditures that cannot be charged directly to a specific program must be allocated across all programs and/or entities benefited by the expenditure. We identified \$150,752 in expenses that were not directly related to the SED preschool cost-based program.

During 2010, St. Mary's issued bonds totaling \$102 million for construction of a new patient care pavilion at its Bayside, Queens campus. Of that amount, \$17 million (17%) was used for renovations on the existing facility – where the SED preschool cost-based program is located. In order to take advantage of the low interest rates, the bonds were retired early in 2019. As part of the early retirement, St. Mary's paid over \$5 million in bank charges. We found the entire \$5 million was reported as an agency administration expense on CFR Schedule 3. However, we determined the bond retirement charges were overallocated to the SED preschool cost-based program because a portion of the bond retirement fees was associated with the new patient care pavilion. Only the costs associated with the existing facility should have been reported on the CFR Schedule 3 and subsequently allocated to the SED preschool cost-based program. We note that SED had previously disallowed a portion of these costs.

Consequently, we determined that \$150,752 in bond retirement fees were overallocated to the SED preschool cost-based program.

## Ineligible OTPS Costs

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. The RCM also states that certain costs such as all personal expenses, fines and penalties, and costs of food provided to staff, fundraising, and lobbying are not reimbursable. In addition, according to the CFR Manual, only expenses and revenues for the proper CFR reporting period should be included on the CFR. We identified \$8,183 in OTPS costs that were ineligible for reimbursement, as follows:

- \$2,072 in film/production services not directly related to the SED preschool cost-based program;
- \$1,804 in non-program-related expenses. The invoices indicated the expenses were related to other programs, and included, for example, nursing unit items and a dental examination chair for inpatient residents;
- \$1,481 in lobbying fees;
- \$1,058 in food provided to staff;
- \$977 in vehicle expenses (e.g., car maintenance, registration renewal, gas) that were not used for the SED preschool cost-based program;

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- \$478 in building violation fines (e.g., for failure to provide floor plans, missing window guards); and
  - \$313 in other ineligible expenses, such as \$128 in irrigation expenses that were charged to the incorrect CFR reporting period, \$122 for dinner entertainment, and \$63 in other miscellaneous expenses.

We recommend that SED disallow \$8,183 in OTPS expenses that did not meet the requirements of the RCM.

## Valet Parking Services

The RCM states that costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the special education program, and sufficiently documented. We identified \$4,849 in allocated valet parking services that were neither reasonable nor directly related to the SED preschool cost-based program.

During the audit period, St. Mary's contracted with Parking Systems Health Corporation to provide valet parking services at its Bayside campus. According to St. Mary's officials, the parking lot could not accommodate all staff and visitors, and the use of valet parking services was a way to reduce tension with their neighbors because the Bayside campus is located in a residential area and employees and visitors would often park on the surrounding streets. They also advised us that the valet parking services are available and utilized by St. Mary's staff as well as parents of the students.

We determined the valet parking expense is not reasonable because on-street parking is available in the vicinity surrounding the Bayside campus. Additionally, this expense does not directly benefit the SED preschool cost-based program.

Consequently, we recommend that SED disallow \$4,849 in expenses that did not comply with the RCM's requirements.

## Recommendations

### To SED:

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

### To St. Mary's:

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

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The objective of our audit was to determine whether the costs reported by St. Mary's on its CFRs were reasonable, necessary, directly related to the special education program, and sufficiently documented, pursuant to SED guidelines. The audit focused primarily on expenses claimed on St. Mary's CFR for the calendar year ended December 31, 2019 and certain expenses claimed on its CFRs for the 2 calendar years ended December 31, 2018.

To accomplish our objective, we reviewed the RCM, the CFR Manual, the Regulations of the Commissioner of Education, St. Mary's CFRs, and relevant financial and program records for the audited period. In addition, we evaluated the internal controls over the costs claimed on, and the schedules prepared in support of, the CFRs submitted to SED. We also interviewed St. Mary's officials and staff to obtain an understanding of St. Mary's financial and business practices. Additionally, we selected a judgmental sample of reported costs to determine whether they were supported, program related, and reimbursable. Specifically, we reviewed costs that were considered high risk and reimbursable in limited circumstances based on prior audit report findings, such as salaries and fringe benefit expenses, cost allocation, and OTPS expenses. We determined the data used to support the key findings in this report were reliable. Our samples were based on the relative materiality of the various categories of costs reported and their associated levels of risk. Our samples were not designed to be projected to the entire population of reported costs.

# Statutory Requirements

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## Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 4410-c of the Education Law.

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

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

## Reporting Requirements

We provided a draft copy of this report to SED and St. Mary's officials for their review and formal comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of it. In their response, SED officials agreed with our recommendations and indicated that they will take steps to address them. In their response, St. Mary's officials generally agreed with most of our conclusions. Our response to certain St. Mary's comments is included in the report's State Comptroller's Comment.

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

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**St. Mary's Hospital for Children, Inc.**  
**Summary of Submitted and Disallowed Program Costs**  
**for Calendar Years 2017, 2018, and 2019**

<b>Program Costs</b>	<b>Amount Reported on CFR</b>	<b>Amount Disallowed</b>	<b>Amount Remaining</b>	<b>Notes to Exhibit</b>
Personal Services				
Direct Care	\$8,079,641	\$685	\$8,078,956	A-C
Agency Administration	727,724	92,673	635,051	
<b>Total Personal Services</b>	<b>\$8,807,365</b>	<b>\$93,358</b>	<b>\$8,714,007</b>	
Other Than Personal Services				
Direct Care	\$1,921,872	\$9,392	\$1,912,480	B, D-K
Agency Administration	1,011,278	154,392	856,886	
<b>Total Other Than Personal Services</b>	<b>\$2,933,150</b>	<b>\$163,784</b>	<b>\$2,769,366</b>	
<b>Total Program Costs</b>	<b>\$11,740,515</b>	<b>\$257,142</b>	<b>\$11,483,373</b>	

# Notes to Exhibit

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

- A. RCM Section I.6 – Staff-to-student ratios are defined in Part 200 of the Commissioner of Education's Rules and Regulations. A specific approved program's student-to-staff ratio is also defined in that program's programmatic approval letter from SED's Office of Special Education-Special Education Quality Assurance. Direct care personnel in excess of or not prescribed by such ratios are not reimbursable, unless supported by the student's individualized education program (IEP) requirements and the program-generated summary data relating to those IEPs. An SED programmatic review and approval of variations from these ratios is required for costs of additional staff to be reimbursable.
- B. RCM Section II – Costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented.
- C. RCM Section II.13.A.4 – Compensation (i.e., salaries plus fringe benefits) for an entity's staff whose function is that of Executive Director, Assistant Executive Director, or Chief Financial Officer will be directly compared to the regional median compensation for comparable administration job titles of public school districts, as determined and published annually by SED's Basic Educational Data Systems. Reimbursement of employee compensation for these job titles shall not exceed the median compensation paid to comparable personnel in public schools for similar work and hours of employment in the region in which the entity is located.
- D. RCM Section II.14.B – Costs associated with retainers for legal, accounting, or consulting services are not reimbursable unless the fee represents payment for actual documented reimbursable services rendered, provided the services are not for lobbying efforts. Lobbying activities include, but are not limited to, advocating for legislation and activities associated with obtaining grants, contracts, cooperative agreements, or loans.
- E. 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, personal vehicle repairs, and rental expenses for personal apartments, are not reimbursable unless specified otherwise.
- F. RCM Section II.21 – Fines and penalties resulting from violations of or failure by the entity to comply with federal, State, and/or local laws and regulations are not reimbursable.
- G. RCM Section II.22.C – Costs of food provided to any staff including lunchroom monitors are not reimbursable.
- H. RCM Section II.23 – Costs of organized fundraising (i.e., financial campaigns, endowment drives or solicitation of gifts and bequests) to raise capital or to obtain contributions are not reimbursable.
- I. CFR Manual (page 3.3) – Only expenses and revenues for the proper CFR reporting period should be included in the CFR. CFRs submitted with expenses and revenues for a different reporting period will not be accepted.

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- J. CFR Manual (page 15.1) – The CFR-3 schedule is used to report and allocate the administrative costs that are not directly related to specific programs/sites, but are attributable to the overall operation of the agency.
  - K. CFR Manual (page 42.2) – Providers should note that all attempts should be made to directly charge an expense to the appropriate cost center (agency administration or program/site and program administration).



# Agency Comments - State Education Department

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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

September 21, 2022

Mr. Kenrick Sifontes  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
59 Maiden Lane, 21<sup>st</sup> 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, 2021-S-38, *St. Mary's Hospital for Children, Inc. (St. Mary's) - 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 St. Mary’s CFR and to St. Mary’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. NYSED will further review the staffing recommendations and bank charges to determine if the adjustments are appropriate.

Recommendation 2:

**“Remind St. Mary’s 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 St. Mary’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 St. Mary’s 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.

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If you have any questions regarding this response, please contact Nell Brady, Director of the Rate Setting Unit, at (518) 474-1298.

Sincerely,

A handwritten signature in cursive script that reads "Sharon Cates-Williams".

Sharon Cates-Williams

cc: Christopher Suriano  
Suzanne Bolling  
Phyllis Morris  
Nell Brady  
James Kampf  
Jerry Nestleroad  
Jeanne Day

# Agency Comments - St. Mary's Hospital for Children, Inc.

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September 30, 2022

Kenrick Sifontes  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
59 Maiden Lane, 21<sup>st</sup> Floor  
New York, NY 10038

Re: State Education Department  
Compliance with the Reimbursable Cost Manual  
St. Mary's Hospital for Children  
OSC Audit 2021-S-38  
Draft Report

Dear Mr. Sifontes,

We have reviewed the Draft Report of the Office of the State Comptroller's audit of costs reported by St. Mary's Hospital for Children (St. Mary's) on its Consolidated Fiscal Reports (CFR's) for the three calendar years ended December 31, 2019 to determine if costs for reimbursement were reasonable, necessary, directly related to the special education program, and sufficiently documented. We appreciate the opportunity to provide comments for consideration in the Final Report.

## **Personal Service Costs**

### *Excessive Executive Compensation*

As the auditors acknowledge in the Draft Report, the State Education Department (SED) reviewed executive compensation for purposes of establishing the program's tuition rate for the period under audit.

Executive compensation is analyzed annually with the preparation and submission of the CFR. Executive compensation exceeding median salaries (as determined by the Department's Basic Educational Data Systems) is adjusted out of costs upon promulgation of the final rate. For fiscal year's 2017-2018, 2018-2019 and 2019-2020, St. Mary's did have executive compensation exceeding the median compensation which was reduced from salary expense for the 9100 program and excluded from the calculation of the final reconciled rates in those years.

The Executives of St. Mary's oversee the companies and programs that comprise St. Mary's Healthcare System for Children. While their salaries exceed median salaries for a Superintendent and Assistant Superintendent, their salaries are reasonable and in line with the healthcare industry and similar organizations. And as previously stated, any excessive executive compensation has been adjusted out and excluded by SED in the assessment of allowable costs and the calculation of final rates.

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*Excess Student-to-Staff Ratios*

We respectfully disagree with the auditor's claim that teacher full-time-equivalents (FTE) exceed SED-approved staffing levels. The auditors' calculation of teacher FTE was done on a half-year calendar basis. Although St. Mary's files its CFR on a calendar year basis, the State Education Department (SED) reviews all staffing patterns on a fiscal year basis in alignment with the school year. When teacher FTE is calculated on a fiscal year basis, teacher staffing patterns are not overstated. Additionally, there is only one teacher assigned to each classroom in accordance with the SED approval letter in each of the 3 years under audit.

[Comment 1](#)

*Overstated Non-Mandated Fringe Benefits*

We do not challenge the auditors' finding identifying \$2,372 in overstated fringe benefits. There was an identified formula error in the allocation of fringe benefits from other programs, limited to the 2019 CFR.

**Other Than Personal Service Costs**

*Overallocated Bank Charges*

We do not challenge the auditors' finding of overallocated bond retirement fees in the 2019 calendar year CFR, however, we would like to emphasize that this fee had no impact on the final reconciled rate. In each of the three years under audit, St. Mary's administrative costs exceeded the administrative threshold by significantly more than the amount of this finding and were screened out of the final rates.

*Ineligible OTPS Costs*

We do not challenge the auditor's finding of ineligible OTPS costs. St. Mary's tuition program operates under St. Mary's Hospital for Children which houses a skilled nursing facility, as well as other non-SED programs. The OTPS costs identified were generated from the Plant Operations department of St. Mary's Hospital for Children. Costs in this department are allocated to the tuition program via a step-down analysis generated with the Residential Health Care Facility cost report (RHCF). While these costs are reasonable and allowable under the RHCF, we understand they are ineligible for reimbursement according to the Reimbursable Cost Manual (RCM).

*Valet Parking Services*

Although utilized by the staff and visitors of the tuition program, we do not challenge the auditors finding to disallow \$4,849 in valet parking expenses.

# State Comptroller's Comment

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1. We acknowledge that SED reviews all staffing levels on a fiscal year basis in alignment with the school year. We recomputed the required staffing levels on a fiscal year basis and revised our recommended disallowance to \$685.

# Contributors to Report

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## Executive Team

**Andrea C. Miller** - *Executive Deputy Comptroller*

**Tina Kim** - *Deputy Comptroller*

**Ken Shulman** - *Assistant Comptroller*

## Audit Team

**Kenrick Sifontes** - *Audit Director*

**Stephen Lynch** - *Audit Manager*

**Ann Marsh** - *Audit Supervisor*

**Tania Zino** - *Examiner-in-Charge*

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