

State Education Department

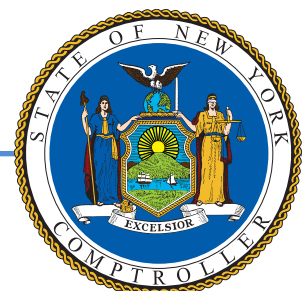
The Arc Jefferson-St. Lawrence: Compliance With the Reimbursable Cost Manual

Report 2024-S-14 | October 2025

OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

Division of State Government Accountability



Audit Highlights

Objective

To determine whether the costs submitted by The Arc Jefferson-St. Lawrence (Arc-JSLC) 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) Reimbursable Cost Manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). The audit focused primarily on expenses claimed on Arc-JSLC's CFR for the fiscal year ended June 30, 2021, and certain expenses claimed on its CFRs for the 2 fiscal years ended June 30, 2020.

About the Program

Arc-JSLC is a not-for-profit special education provider located in Watertown that serves students from Jefferson and Lewis counties. Arc-JSLC is authorized by SED to provide Preschool Special Class (over 2.5 hours per day) and Preschool Integrated Special Class (2.5 hours per day) education services to children with disabilities between the ages of 3 and 5 years. For the purposes of this report, these programs are referred to as the SED preschool cost-based programs. Arc-JSLC also operated other SED-approved preschool special education programs, including Evaluations, Related Services, and 1:1 Aides. However, payments for services under these programs are based on fixed fees, as opposed to the cost-based rates established using CFR-reported information. During the 2020-21 school year, Arc-JSLC served approximately 56 preschool children in the SED preschool cost-based programs.

Jefferson and Lewis counties pay tuition to Arc-JSLC using reimbursement rates set by SED. The State, in turn, reimburses the counties for a portion of the tuition paid. SED sets the special education rates based on financial information, including costs, that Arc-JSLC reports to SED on its annual CFRs. For the 3 fiscal years ended June 30, 2021, Arc-JSLC reported approximately \$5.4 million in reimbursable costs for the SED preschool cost-based programs.

Key Findings

For the 3 fiscal years ended June 30, 2021, we identified \$91,887 in reported costs that did not comply with the requirements in the RCM and CFR Manual, as follows:

- \$43,789 in unsupported general ledger entries that were reported on the CFRs, including \$43,331 in OTPS costs and \$458 in personal service costs
- \$17,406 in vehicle costs that were not sufficiently documented
- \$13,749 in bonus payment compensation costs that were not in compliance with the RCM's guidelines
- \$7,520 in unsupported related-party costs
- \$6,944 in ineligible costs, including staff food and beverages, advertising, gift cards, and laundry costs
- \$2,323 in executive compensation that exceeded SED's median allowable compensation limit
- \$156 in working capital interest costs related to late CFR filings

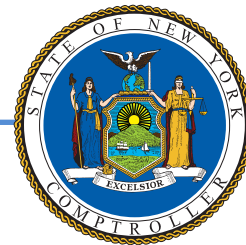
Key Recommendations

To SED:

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

To Arc-JSLC:

- Ensure that costs reported on annual CFRs fully comply with SED's requirements and communicate with SED to obtain clarification as needed.
- Ensure that expenses reported on the CFR match the expenses reported on the financial statements.



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

October 2, 2025

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

Lynn Pietroski
Chief Executive Officer
The Arc Jefferson-St. Lawrence
380 Gaffney Drive, P.O. Box 41
Watertown, NY 13601

Dear Dr. Rosa and Ms. Pietroski:

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 The Arc Jefferson-St. Lawrence 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
SED	State Education Department	<i>Auditee</i>
Arc-JSLC	The Arc Jefferson-St. Lawrence	<i>Service Provider</i>
CFR	Consolidated Fiscal Report	<i>Key Term</i>
CFR Manual	Consolidated Fiscal Reporting and Claiming Manual	<i>Policy</i>
OTPS	Other than personal service	<i>Key Term</i>
RCM	Reimbursable Cost Manual	<i>Policy</i>

Background

The Arc Jefferson-St. Lawrence (Arc-JSLC) is a not-for-profit special education provider located in Watertown, serving students from Jefferson and Lewis counties. Arc-JSLC is authorized by the State Education Department (SED) to provide Preschool Special Class (over 2.5 hours per day) and Preschool Integrated Special Class (2.5 hours per day) education services to children with disabilities between the ages of 3 and 5 years. For the purposes of this report, these programs are referred to as the SED preschool cost-based programs. During the 2020-21 school year, Arc-JSLC served approximately 56 preschool children in the SED preschool cost-based programs.

In addition to the SED preschool cost-based programs, Arc-JSLC operated other SED-approved preschool special education programs, including Evaluations, Related Services, and 1:1 Aides. However, payments for services under these programs are based on fixed fees, as opposed to the cost-based rates established through Consolidated Fiscal Reports (CFRs).

Jefferson and Lewis counties pay tuition to Arc-JSLC using reimbursement rates set by SED. The State, in turn, reimburses the counties for a portion of the tuition paid. SED sets the special education rates based on financial information, including costs, that Arc-JSLC reports to SED on its annual CFR. 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 3 fiscal years ended June 30, 2021, Arc-JSLC reported approximately \$5.4 million in reimbursable costs for the SED preschool cost-based programs.

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, 2021, we identified \$91,887 in costs that Arc-JSLC reported on its CFRs that did not comply with SED's requirements for reimbursement. These ineligible costs include \$16,530 in personal service costs and \$75,357 in other than personal service (OTPS) costs (see Exhibit at the end of the report).

Strong internal controls are critical to the overall health of an organization and 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 Arc-JSLC's internal controls over its compliance with SED's guidelines.

Personal Service Costs

According to the RCM, 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 fiscal years ended June 30, 2021, Arc-JSLC reported approximately \$4.5 million in personal service costs for the SED preschool cost-based programs. We identified \$16,530 in personal service costs that did not comply with the RCM and the CFR Manual's requirements for reimbursement.

Bonus Payments

According to the RCM, bonus compensation is a non-recurring and non-accumulating lump sum payment in excess of regularly scheduled salary, which is not directly related to hours worked. A bonus may be reimbursed if it is based on merit, as measured and supported by employee performance evaluations. Further, the provider's governing entity must adopt a written employee performance evaluation policy that contains sufficient detail as to the criteria and methods used to determine each employee's final evaluation rating and how the final evaluation rating will directly correlate to the bonus compensation amount.

During the 3 fiscal years ended June 30, 2021, the Arc-JSLC Board of Directors approved one-time payments in 2019 and 2020 to employees in good standing based on years of service and employment status. However, the one-time payments and terms described are not in the employer-employee agreements—nor does Arc-JSLC have a formal written policy on one-time payments. Therefore, the 2019 and 2020 payments do not comply with SED reimbursement requirements.

We recommend that SED disallow \$13,749 (\$10,775 in salary and \$2,974 in related fringe benefits) in bonus payment compensation expenses that were not in compliance with the RCM's guidelines.

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 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 fiscal years ended June 30, 2021, compensation costs for Arc-JSLC's Executive Director exceeded the regional median limit by \$80,553. Of this amount, \$2,323 was allocated to the SED preschool cost-based programs.

Consequently, we recommend that SED disallow \$2,323 (\$1,731 in salary and \$592 in associated fringe benefits), in executive compensation that did not comply with SED's requirements. We note that SED had previously disallowed these costs.

Unsupported General Ledger Entries

According to the RCM, costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. The RCM states that Section 200.9(d) of the Commissioner's Regulations 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. Further, the RCM states costs will not be reimbursable on field audit without appropriate written documentation.

For the 3 fiscal years ended June 30, 2021, we reconciled the personal service expenses Arc-JSLC reported on its CFRs to its general ledgers. We found personal service costs of \$18,951 reported on its CFRs that were not supported by its general ledger, of which \$458 was allocated to the SED preschool cost-based programs. The transaction detail is the key information required to enable us to reconcile the amounts claimed on the CFRs to the amounts in the general ledgers as well as help to identify whether the costs claimed are reasonable, necessary, directly related to the special education programs, and sufficiently documented.

We recommend that SED disallow \$458 (\$388 in salary and \$70 in associated fringe benefits) in personal service expenses that Arc-JSLC reported on its CFRs but that were not supported by its general ledgers.

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 fiscal years ended June 30, 2021, Arc-JSLC reported \$920,954 in OTPS expenses charged to the SED

preschool cost-based programs. To determine whether these expenses complied with SED's requirements for reimbursement, we judgmentally selected and reviewed a sample of OTPS expenses totaling \$586,376. We also compared Arc-JSLC's general ledger to expenses reported on its CFRs. We identified \$75,357 in expenses that did not comply with SED's reimbursement requirements.

Unsupported General Ledger Entries

The RCM states that Section 200.9(d) of the Commissioner's Regulations 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. Further, the RCM states costs will not be reimbursable on field audit without appropriate written documentation.

For the 3 fiscal years ended June 30, 2021, we reconciled the OTPS expenses that Arc-JSLC reported on its CFRs to its general ledgers. We found OTPS costs of \$54,974 reported on its CFR that were not supported by its general ledgers, of which \$43,331 was allocated to the SED preschool cost-based programs. The transaction detail is the key information required to enable us to reconcile the amounts claimed on the CFRs to the amounts in the general ledgers as well as help to identify whether the costs claimed are reasonable, necessary, directly related to the special education programs, and sufficiently documented.

We recommend that SED disallow \$43,331 in OTPS expenses that Arc-JSLC reported on its CFRs but that were not supported by its general ledgers.

Vehicle Costs

According to the RCM, 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 traveler. For vehicles solely used by maintenance staff in performing assigned duties such as building/property upkeep and repairs, a weekly log must be maintained and must include the beginning and ending dates of the week, the beginning and ending mileage, and a signature of a designated supervisor attesting that the logged mileage was used solely by maintenance/building staff, with a description of the maintenance activities that were performed using the vehicle that week. Further, if the vehicle was assigned to an employee, the log should also list the name of the employee to whom it was assigned. The annual mileage for program purposes and repairs and maintenance costs for each vehicle should be summarized and maintained.

Arc-JSLC provided vehicle logs for each of its seven maintenance vehicles. Our review identified issues with the vehicle logs. For example, we could not determine if the mileage recorded was the beginning or ending mileage or if the fuel log entry represented the amount of fuel used or the amount of fuel purchased. We were also unable to determine the dates the vehicles were used or what duties were performed, as this information was not recorded in the vehicle logs. Further, the logs

were not maintained on a weekly or monthly basis, as required. For example, the logs provided covered multiple months at a time because staff make entries into the log only when they refuel the vehicles.

During the 3 fiscal years ended June 30, 2021, Arc-JSLC reported \$183,869 in vehicle costs that were not supported by vehicle logs including: insurance (\$95,391), depreciation (\$78,398), and operating costs (\$10,080), of which \$17,406 was allocated to the SED preschool cost-based programs.

We recommend that SED disallow \$17,406 related to vehicle expenses that were not in compliance with SED's requirements.

Related-Party Transactions

According to the RCM, a related party includes any party transacting or dealing with a program operator where the party has ownership of, control over, or significant influence on the management or operating policies of the program operator to the extent that an arm's-length transaction may not be achieved. Furthermore, transactions with related parties can only be reimbursed using actual documented costs of the owner or vendor. Invoices presented to the approved special education provider by the related party do not constitute "actual costs." Actual costs are those the related party incurs and it is expected, upon audit, that the related party will produce evidence of its costs.

As a related party to Arc-JSLC, NYSARC, Inc., the parent organization of Arc-JSLC and the pass-through entity through which the national-level Arc organization (The Arc of the United States) also charges fees, is required to provide evidence of its costs. The CFR Manual states that NYSARC provider chapters, such as Arc-JSLC, do not have to submit the supporting documentation because their parent agency, NYSARC, Inc., submits the supporting documentation for all its chapter members directly to the applicable State agencies. However, the supporting documentation provided to SED was not sufficient to determine whether the expenses charged to the program were reasonable and appropriate for reimbursement.

We identified \$246,736 in related-party costs that were unsupported and included costs charged directly to Arc-JSLC from NYSARC, Inc. and indirectly to Arc-JSLC from The Arc of the United States, of which \$7,520 was allocated to the SED preschool cost-based programs.

We recommend that SED disallow \$7,520 in related-party expenses that were not supported.

Ineligible and Unsupported 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 states that, when determining the reasonableness of a given cost, consideration is to be given to, among other factors, whether the

cost is a type generally recognized as ordinary and necessary for the operation of a special education program approved under Article 89 of the Education Law. It also states that costs for staff—including clothing, food, beverages, entertainment, flowers, and gifts—and other related costs for meetings, including board meetings, are not reimbursable unless specified otherwise in the RCM. Promotional items of any type and advertising expenses related to student recruitment are not allowed. Further, 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.

We found that Arc-JSLC reported \$7,005 in expenses that were ineligible for reimbursement including: laundry (\$4,927), staff food and beverages (\$1,218), advertising (\$505), and gift cards for staff (\$355), of which \$6,842 was allocated to the SED preschool cost-based programs. We also identified \$482 in expenses that did not have any supporting documentation, including a leased vehicle payment (\$393) and a service subscription (\$89), of which \$102 was allocated to the SED preschool cost-based programs.

We recommend that SED disallow \$6,944 (\$6,842 + \$102) in costs that were not in compliance with the RCM or not sufficiently documented. We note that SED previously disallowed \$4,927 of the ineligible expenses related to laundry.

Working Capital Interest

According to the RCM, interest expenses are reimbursable provided the interest rate is not in excess of the prime rate plus 1%. Further, interest expense on working capital loans will not be reimbursed if the entity files its CFR more than 90 days after its due date. For January–December filers, such as Arc-JSLC, the CFR due date is May 1, and the extended due date is June 1. Arc-JSLC submitted its 2019 CFR on August 3, 2020 and its 2020 CFR on July 1, 2022—both more than 90 days after their May 1 due date. Consequently, \$5,367 in working capital interest was ineligible for reimbursement for the 3 fiscal years ended June 30, 2021, of which \$156 was allocated to the SED preschool cost-based programs.

We recommend that SED disallow the \$156 allocated to the cost-based programs and note that SED previously identified these costs as ineligible for reimbursement.

Recommendations

To SED:

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

To Arc-JSLC:

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements and communicate with SED to obtain clarification as needed.
4. Ensure that expenses reported on the CFR match the expenses reported on the financial statements.

Audit Scope, Objective, and Methodology

The objective of our audit was to determine whether the costs reported by Arc-JSLC on its CFRs are reasonable, necessary, directly related to the special education program, and sufficiently documented pursuant to SED's guidelines, including the RCM and CFR Manual. The audit focused primarily on expenses claimed on Arc-JSLC's CFR for the fiscal year ended June 30, 2021, and certain expenses claimed on its CFRs for the 2 fiscal years ended June 30, 2020.

To accomplish our objective, we reviewed the RCM, the CFR Manual, the Regulations of the Commissioner of Education, Arc-JSLC's CFRs, and relevant financial and program records for the audited period. We also interviewed Arc-JSLC officials and staff to obtain an understanding of Arc-JSLC's financial and business practices. 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 used a non-statistical sampling approach to provide conclusions on our audit objective and to test internal controls and compliance. 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 allocations, and OTPS expenses. We also selected a judgmental sample of employees based on their title codes, the number of programs their salaries were attributed to, and which CFR schedule they were charged to. Our samples were based on the relative materiality of the various categories of costs reported and their associated levels of risk. However, because we used a non-statistical sampling approach for our tests, we cannot project the results to the respective populations. Our samples are discussed in detail in the body of our report.

We obtained data from Arc-JSLC's general ledgers and other financial systems, and we assessed the reliability of that data by interviewing officials knowledgeable about the system and by tracing to and from source data. We determined that the data from these systems was sufficiently reliable for the purposes of this report.

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 State Education Law.

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

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. 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 Arc-JSLC's compliance with the RCM and CFR Manual.

Reporting Requirements

We provided a draft copy of this report to SED and Arc-SJLC officials for their review and formal comment. Their comments were considered in preparing this final report and are included in their entirety at the end of it. SED officials agreed with the audit recommendations and indicated the actions they will take to address them. Arc-SJLC officials generally agreed with the audit recommendations; however, they disagreed with the finding regarding excess executive compensation. Our response to one of Arc-SJLC's comments is embedded within its response as a 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 the State Education Department 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

The Arc Jefferson-St. Lawrence
Schedule of Submitted and Disallowed Program Costs
for the 3 Fiscal Years Ended June 30, 2021

Program Costs	Amount Reported on CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services				
Direct Care	\$4,285,196	\$13,749	\$4,271,447	B,E,F
Agency Administration	221,621	2,781	218,840	
Total Personal Services	\$4,506,817	\$16,530	\$4,490,287	
Other Than Personal Services				
Direct Care	\$732,858	\$63,935	\$668,923	A,C,D,G-O
Agency Administration	188,096	11,422	176,674	
Total Other Than Personal Services	\$920,954	\$75,357	\$845,597	
Total Program Costs	\$5,427,771	\$91,887	\$5,335,884	

Notes to Exhibit

The following Notes refer to specific sections of the RCM and the CFR Manual that we 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 Arc-JSLC officials during the course of our audit.

- A. RCM Section I.4.E–F – Related parties include any party transacting or dealing with a program operator where the party has ownership of, control over, or significant influence on the management or operating policies of the program operator to the extent that an arm’s-length transaction may not be achieved. All transactions with related parties can only be reimbursed using actual documented costs of the owner or vendor. Invoices presented to the approved special education provider by the related party do not constitute “actual costs.” Actual costs are those the related party incurs and it is expected upon audit that the related party will produce evidence of its costs.
- 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.3.A – Advertising costs for the purpose of recruiting students into programs or soliciting fundraising monies or donations are not reimbursable and remain non-allowable in calculation of tuition rates.
- D. RCM Section II.3.A – Promotional items of any type are not reimbursable.
- E. 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 must 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.
- F. RCM Section II.13.A.10 – A merit award may be reimbursed if it is based on merit as measured and supported by employee performance evaluations that are completed prior to the determination and accrual of the merit award and within 1 year of such determination and accrual. In order to demonstrate that a merit award is based on merit and measured and supported by employee performance evaluations, the provider’s governing entity must adopt a written employee performance evaluation policy and form that contains sufficient detail as to the criteria and methods used to determine each employee’s final evaluation rating. The written employee performance evaluation policy must also describe how the final evaluation rating will directly correlate to any amount of a merit award should funds be available for such an award.
- G. 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 personal vehicles, and rental expenses for personal apartments, are not reimbursable unless specified otherwise in the RCM.
- H. RCM Section II.22.C – Costs of food provided to any staff, including lunchroom monitors, are not reimbursable.
- I. RCM Section II.28.A – Arm’s length interest expense on capital indebtedness and working capital is reimbursable provided the interest rate is not in excess of the prime rate plus 1% of the lending institution at the time the loan was made. Interest expense will be reimbursed on loans in excess

of the prime rate plus 1% in cases where the entity can establish that it was unable to secure a rate of prime plus 1% or lower despite its good faith efforts to do so.

- J. RCM Section II.28.D.(3) – Interest expense on working capital loans for late filers of required financial information will be reimbursed on a prorated basis if submitted within 90 days of the respective due date. No interest expense will be reimbursed for entities that file cost reports more than 90 days after the respective due dates.
- K. RCM Section II.30.C – Costs for food, beverages, entertainment, and other related costs for meetings, including board meetings, are not reimbursable.
- L. RCM Section III.1 – Section 200.9(d) of the Commissioner’s Regulations 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.
- M. 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.
- N. RCM Section III.1.J – 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 traveler; provided that for a vehicle solely used by maintenance staff in performing assigned duties, such as building/property upkeep and repairs, a weekly log must be maintained and must include the beginning and ending dates of the week, the beginning and ending mileage, and a signature of a designated supervisor attesting that the logged mileage was used solely by maintenance/building staff, with a description of the maintenance activities that were performed using the vehicle that week. If the vehicle was assigned to an employee, also list the name of the employee to whom it was assigned. The annual mileage for program purposes and repairs and maintenance costs for each vehicle should be summarized and maintained.
- O. CFR Manual Section 15.38 – NYSARC provider chapters do not have to submit the supporting documentation because their parent agency, NYSARC, Inc., submits the supporting documentation for all its chapter members directly to the applicable State agencies.

Agency Comments – State Education Department



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

Dr. Jeffrey Matteson, Senior Deputy Commissioner for Education Policy
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Albany, NY 12234
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August 15, 2025

Nadine Morrell
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Dear Ms. Morrell:

The following is the New York State Education Department's (NYSED) response to the draft audit report, 2024-S-14, *The ARC Jefferson-St. Lawrence (Arc-JSLC) - 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 Arc-JSLC's CFRs and tuition reimbursement rates, as warranted."

We agree with this recommendation. NYSED will review the recommended disallowances as noted in the report and adjust the reported costs to recover any overpayments, as appropriate, by recalculating tuition rates. NYSED will further review the bonus payment disallowance recommendations to determine if the adjustments are appropriate.

Recommendation 2:

"Remind Arc-JSLC officials of the pertinent NYSED requirements that relate to the deficiencies we identified."

We agree with this recommendation. NYSED will continue to provide technical assistance whenever requested and will strongly recommend that Arc-JSLC'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, NYSED will alert Arc-JSLC of online CFR training that is available on NYSED's webpage. NYSED requires 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 Nell Brady, Director of the Rate Setting Unit, at (518) 474-1298.

Sincerely,



Jeffrey Matteson
Senior Deputy Commissioner for
Education Policy

cc: Christina Coughlin
Christopher Suriano
Suzanne Bolling
James Kampf
Jeanne Day
Nell Brady
Jennifer Finucan
William Meissner
Rebecca Jones
Mary Moore

Agency Comments – Arc-JSLC and State Comptroller’s Comment

The Arc
Jefferson – St. Lawrence
New York

Achieve with us.
Lynn Pietroski: Chief Executive Officer
Jackie Sauter: President, Board of Directors
www.thearcjslc.org

September 4, 2025

Mr. Ray Barnes
Office of the State Comptroller
110 State Street, 11th Floor
Albany, NY 12236

Dear Mr. Barnes:

The following is The Arc Jefferson-St. Lawrence (JSLC) response to the draft audit report 2024-S-014, compliance with the Reimbursement Cost Manual dated August 2025:

General Ledger Discrepancies:

During the review, it was discovered that an error occurred due to importing the information to the wrong CFR 1 or 3 line. For example, the expenses were correct, but were moved down one line on the report therefore not accurately expensed to the correct category. Moving forward we will be sure to double check line numbers. We do not dispute the disallowance of \$43,331.

Personal Services Cost:

One-Time Payments to Staff:

We do not dispute the disallowance of \$13,749 for one-time payments. We understand the Board of Directors approval and memo of distribution plan does not meet the requirements of the RCM. However, it should be noted that when our agency’s financial position allows us to provide an incentive to improve overall retention in an already strained workforce, we believe this has positively affected our employee base. The Arc Jefferson-St. Lawrence will develop a policy addressing one-time payments to employees.

Compensation above the Regional Median for the Executive Director:

Although the audit team explained how this conclusion was derived, we do not agree with the disallowance of a portion of the CEO’s salary and fringe \$2,323. As discussed, The Arc Jefferson-St. Lawrence is multi-dimensional organization that supports well over 1000 individuals annually. The Executive Leadership Team’s salary falls below market studies conducted of like-minded and comparatively sized agencies. The Preschool program and services makes up only a small part of the multi-dimensional operations. Moving forward, The Arc Jefferson-St. Lawrence will allocate a smaller percent of the CEO’s salary and fringe benefit to allow for this non-allowance.

Jefferson County: 315-788-2730
380 Gaffney Drive P.O. Box 41
Watertown, New York 13601

St. Lawrence County: 315-379-9531
6 Commerce Lane
Canton, New York 13617

State Comptroller's Comment – As stated on page 8 of the report, the RCM states that compensation (i.e., salaries, plus fringe benefits) for an entity's staff whose function is that of Executive Director 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. Further, SED had previously disallowed these costs.

General Ledger Discrepancies: \$458

We do not dispute this amount and have no further comment related to this non-allowance.

Other Than Personal Services Costs:

Vehicle Expenses for CRF-1 and CFR-3:

We do not dispute the disallowance of \$18,423 for maintenance vehicles. We understand there was not adequate documentation on the vehicles to support the associated cost. However, the agency will revise all logs and provide training to our facilities team to ensure proper documentation is completed and is in compliance with the RCM. The Arc JSLC does not assign facility vehicles to an individual employee or a program but maintains a fleet of vehicles for the facilities staff to address maintenance related issues or tasks. Additionally, we allocate the maintenance department's time and expenses based on square footage of the location. Due in part to the size of our organization and overall operating budget, this methodology is the most conducive to our organization. The Arc JSLC will work toward more accurate documentation that coincides with the allocation.

Related-Party Transactions:

We do not dispute the disallowance of \$7,520 for dues associated with our State and National Dues. These dues are required of The Arc Jefferson- St. Lawrence to pay to both parties. The Arc Jefferson-St. Lawrence will work with The Arc NY to ensure the appropriate documentation is in place for the allocation of dues.

CFR-1 & 3 General Ledger Sampled Expenses:

Ineligible and Unsupported Cost:

We do not dispute that the disallowance of \$6,944 for costs that were not in compliance with the RCM or not sufficiently documented.

Working Capital Interest:

We do not dispute the disallowance for \$156.

The Arc
Jefferson – St. Lawrence
New York

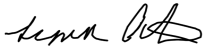
Achieve with us.

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Jackie Sauter: President, Board of Directors

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Thank you to you and your team for the professionalism and courtesy you allowed during this yearlong audit. We appreciate your willingness to work through staffing transitions with us and provide guidance in times of uncertainty. If you have any further questions regarding our response or our agency, please feel free to contact me at 315-836-1230 or lnpietroski@thearcjslc.org.

Sincerely,



Lynn Pietroski
Chief Executive Officer

Cc: Deborah Frary, The Arc Jefferson-St. Lawrence CFO; Josie Clary, The Arc JSLC Director of Corporate Compliance; Jessica Strizzi, Examiner in charge.

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