



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Compliance With the Reimbursable Cost Manual

**State Education Department
Kids-Centric, Inc.**



Executive Summary

Purpose

To determine whether the costs reported by Kids-Centric, Inc. (Kids-Centric) on its Consolidated Fiscal Reports (CFRs) were properly documented, program-related, and allowable pursuant to the State Education Department's (SED) Reimbursable Cost Manual (Manual). The audit covered expenses claimed on Kids-Centric's CFR for fiscal year 2012-13, and certain expenses claimed on Kids-Centric's CFRs for the two fiscal years ended June 30, 2012.

Background

Kids-Centric is a Brooklyn, New York-based for-profit organization that provides Special Education Itinerant Teacher (SEIT) services and integrated special class preschool special education programs (collectively referred to as the SED Programs) to disabled children between the ages of three and five years. During the 2012-13 school year, Kids-Centric served 153 students. The New York City Department of Education (DoE) refers students to Kids-Centric based on clinical evaluations and pays for its services using rates established by SED. The rates are based on the financial information that Kids-Centric reports to SED on its annual CFRs. SED reimburses DoE for a portion of its payments to Kids-Centric based on statutory rates.

For the three fiscal years ended June 30, 2013, Kids-Centric reported approximately \$14.2 million in reimbursable costs for the audited program. Our audit period focused primarily on fiscal year 2012-13. However, we expanded our review to include certain items claimed on the CFRs for fiscal years 2010-11 and 2011-12.

Key Findings

For the three fiscal years ended June 30, 2013, we identified \$301,601 in reported costs that did not comply with Manual requirements and recommend such costs be disallowed. These ineligible costs included \$139,267 in personal services costs and \$162,334 in other than personal service costs. Among the disallowances we identified were:

- \$67,783 in various unsupported travel expenses. This included \$51,330 in unsupported vehicle expenses. Kids-Centric did not maintain vehicle logs for certain vehicles or the vehicle logs and other supporting documentation for other vehicles was not sufficient to support the vehicle's program-related use;
- \$58,565 in salary expenses that were not supported or documented. For the 2012-13 year, we compared the personal service costs reported on the CFR to supporting documentation (e.g., payroll ledgers) and found that there was no supporting documentation for \$58,565 in reported costs;
- \$39,410 in ineligible and/or unsupported food expenses. The expenses included parties for staff as well as alcohol; and
- \$36,812 in costs that were already reimbursed from federal IDEA grants.

Key Recommendations

To SED:

- Review the recommended disallowances resulting from this audit and make the appropriate adjustments to Kids-Centric's CFRs and to Kids-Centric's reimbursement rates.
- Work with Kids-Centric officials to help ensure their compliance with Manual provisions.

To Kids-Centric:

- Ensure that costs reported on future CFRs comply with all the requirements in the Manual.

Other Related Audits/Reports of Interest

[Whitestone School for Child Development: Compliance With the Reimbursable Cost Manual \(2014-S-38\)](#)

[Institutes of Applied Human Dynamics: Compliance With the Reimbursable Cost Manual \(2014-S-39\)](#)

State of New York
Office of the State Comptroller

Division of State Government Accountability

December 30, 2015

Ms. MaryEllen Elia
Commissioner
State Education Department
State Education Building
89 Washington Avenue
Albany, NY 12234

Ms. Marcia Kepecs
Executive Director
Kids-Centric, Inc.
289 Prospect Park West
Brooklyn, NY 11215

Dear Ms. Elia and Ms. Kepecs:

The Office of the State Comptroller is committed to providing accountability for tax dollars spent to support government-funded services and 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-Centric, Inc., to the State Education Department for the purposes of establishing preschool special education 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 draft report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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This report is also available on our website at: www.osc.state.ny.us

Background

Kids-Centric, Inc. (Kids-Centric) is a for-profit organization that provides preschool Special Education Itinerant Teacher (SEIT) services and integrated special class preschool special education programs, collectively referred to as State Education Department (SED) Programs, to children ages three through five years old. Based in Brooklyn, New York, Kids-Centric provides these services to children in Brooklyn, Manhattan, and Queens. During the 2012-13 school year, Kids-Centric served about 153 students.

The New York City Department of Education (DoE) refers students to Kids-Centric based on clinical evaluations and pays for Kids-Centric's services using rates established by SED. These rates are based on the financial information that Kids-Centric reports to SED on its annual Consolidated Fiscal Reports (CFRs). The State, in turn, reimburses the DoE 59.5 percent of the statutory rate paid to Kids-Centric. To qualify for reimbursement, Kids-Centric's expenses must comply with the criteria set forth in SED's Reimbursable Cost Manual (Manual), which provides guidance to special education providers on the eligibility of reimbursable costs, the documentation necessary to support these costs, and cost allocation requirements for expenses relating to multiple programs. Reimbursable costs must be reasonable, necessary, program-related, and properly documented.

Chapter 545 of the Laws of 2013 mandates the State Comptroller to audit the expenses reported to SED by special education service providers for preschool children with disabilities. For the three fiscal years ended June 30, 2013, Kids-Centric reported approximately \$14.2 million in costs for its SED Programs. Our audit scope period focused on fiscal year 2012-13; however, we expanded our review to include certain items claimed on the CFRs for fiscal years 2010-11 and 2011-12.

Audit Findings and Recommendations

For the three fiscal years ended June 30, 2013, we identified \$301,601 in reported costs that did not comply with the Manual's requirements for reimbursement. The ineligible costs included \$139,267 in personal service costs and \$162,334 in other than personal service (OTPS) costs (see Exhibit on page 13 of this report).

Personal Service Costs

According to the Manual, personal service costs, which include all taxable and non-taxable salaries and fringe benefits paid or accrued to employees on the agency's payroll, must be reported on the provider's CFR as either direct care costs (e.g., teachers' salaries) or non-direct care costs (e.g., administrators' salaries). During the three fiscal years ended June 30, 2013, Kids-Centric reported approximately \$11.8 million in personal service costs. We identified \$139,267 in personal service costs that do not comply with the Manual guidelines for reimbursement, as follows:

Unsupported Salary Expenses

According to the Manual, costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the education program, and sufficiently documented. Compensation costs must be based on approved, documented payrolls. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid. Employee time sheets must be signed by the employee and a supervisor, and must be completed at least monthly.

We compared the personal service costs reported on Kids-Centric's CFRs to the supporting documentation (e.g., payroll ledgers) and found that there was no supporting documentation for \$58,565 in reported costs in fiscal year 2012-13. Kids-Centric officials acknowledged that the expenses had no supporting documentation. Consequently, we recommend that SED disallow \$58,565 in unsupported and undocumented salary expenses.

Duplicate Expenses

According to the Manual, costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the education program, and sufficiently documented.

For the two fiscal years ended June 30, 2012, we found that the salary of one Kids-Centric employee was partially funded through federal IDEA grants while it was also being charged, in full, to the SED Programs. The employee's earnings for the two years totaled \$62,855 – which was fully charged to the SED Programs. However, according to documentation provided by NYC Department of Education, \$36,812 of this employee's salary was reimbursed through a federal IDEA grant. Consequently, we recommend that SED disallow \$36,812 in charges that were already funded by IDEA grants.

Bonuses

The Manual defines bonuses as non-recurring, non-accumulating lump sum payments to employees, in excess of their regularly scheduled salaries, that are not directly related to the number of hours worked. Bonuses are restricted to direct care titles/employees only, and are reimbursable if they are based on merit as measured and supported by employee performance evaluations. Further, the 2011-12 Manual specifically stated that bonuses cannot exceed 5 percent of salary of any direct care employee. During fiscal year 2011-12, Kids-Centric reported \$77,100 in bonuses to 64 employees.

We determined that \$39,895 in employee bonuses did not comply with Manual requirements. The bonuses were either not supported by employee performance evaluations (\$34,585) or they exceeded 5 percent of their salary (\$3,871). In addition, we also found that bonuses were given to two non-direct care employees (totaling \$1,439), which is specifically prohibited by the Manual. Therefore, we recommend that SED disallow \$39,895 (\$34,585 + \$3,871 + \$1,439) in bonuses that were not in compliance with the Manual.

Ineligible Costs

The Manual states that costs will be considered for reimbursement provided they are reasonable, necessary, directly related to the education program, and sufficiently documented. Kids-Centric's Preschool-Evaluations program is a fee-based program and its costs are required to be charged to a distinct Program code (9190). As such, any charges related to the Preschool-Evaluations program are ineligible for reimbursement through the SED Programs. However, we found that Kids-Centric officials did not comply with the Manual's guidance and reported \$3,995 in Preschool-Evaluations program expenses to the SED Programs. Kids-Centric officials acknowledged that the costs related to the Preschool-Evaluations program and should not have been charged to the audited programs. Therefore, we recommend SED disallow the \$3,995.

Other Than Personal Service Costs

According to the Manual, OTPS costs must be reasonable, necessary, program-related, and supported by sufficient and appropriate documentation. During the three fiscal years ended June 30, 2013, Kids-Centric reported \$2.4 million in OTPS expenses to the SED Programs. We identified \$162,334 of these expenses that did not comply with SED reimbursement requirements, as follows:

Travel Expenses

Travel costs include costs of transportation, lodging, and subsistence incurred by employees in travel status on official school business. The Manual states that logs must be kept by each employee indicating dates of travel, destination, purpose, mileage, and related costs, such as tolls, parking, and gasoline, and approved by a supervisor to be reimbursable. Further, vehicle use must be documented with individual vehicle logs. The Manual also states that costs resulting

from violations of, or failure by, the entity to comply with federal, State, and/or local laws and regulations are not reimbursable. In addition, the Manual states that costs must be reasonable, necessary, program-related, and supported by sufficient and appropriate documentation.

However, for the three fiscal years ended June 30, 2013, we identified \$67,783 in unsupported and ineligible travel expenses as follows:

- \$51,330 in unsupported vehicle expenses. Kids-Centric officials did not maintain vehicle logs for certain vehicles, and the logs and other supporting documentation for other vehicles was not sufficient to support the vehicles' program-related use;
- \$15,647 in staff travel expenses that were not adequately supported, including \$12,793 for taxis and parking;
- \$650 in ineligible expenses relating to parking tickets and traffic violations; and
- \$156 in unreasonable travel expenses (e.g., \$56 in taxi fare for a staff person to pick up a cell phone and deliver it to a supervisor in the field).

Food Expenses

The Manual states that all personal expenses, such as personal travel expenses, laundry charges, beverage charges, gift certificates to staff and vendors, flowers or parties for staff, holiday parties, repairs on a personal vehicle, rental expenses for personal apartments, etc., are not reimbursable unless specified otherwise in the Manual. Further, the costs for food, beverages, and entertainment and other related costs for meetings, including Board meetings, are not reimbursable. In addition, the Manual states that costs must be reasonable, necessary, program-related, and supported by sufficient and appropriate documentation.

For the three fiscal years ended June 30, 2013, we identified \$39,410 in ineligible and unsupported food expenses as follows:

- \$13,683 in food related to staff parties, including \$1,920 in alcohol expenses;
- \$9,501 in food for staff meetings and training;
- \$6,296 in personal restaurant charges;
- \$4,639 in unsupported food expenses (no invoices or receipts);
- \$3,437 for ineligible supermarket food expenses (e.g., Costco); and
- \$1,854 for ineligible gift baskets and chocolates.

In total, we recommend that SED disallow \$39,410 in food expenses that did not comply with SED's reimbursement requirements.

Consultant Expenses

The Manual requires that consultant costs be supported by a written contract that includes the nature of the services to be provided, charge per day and service dates, itemized invoices showing the specific services provided, the hourly fee, the total amount charged, the name of students served, the actual dates of service, and the number of hours of service to each child on each date.

We found that the documentation maintained by Kids-Centric to support certain consultant costs was insufficient and/or missing. For example, there were no contracts for any of the consultants we reviewed. In addition, Kids-Centric officials did not meet the requirements in the Manual, as detailed by the following:

- \$12,015 in expenses related to consultants who provided speech and physical therapy where the documentation was missing either the specific services provided, the name of students served, the actual dates of service, or the number of hours of service to each child;
- \$6,090 for contracted teachers, teacher assistants, and substitutes where there was no description of the specific services provided and the number of hours of service to each child, nature of the services to be provided, the charge per day, and service dates. In addition, one of the teacher assistants worked as a 1:1 aide. The Manual requires that 1:1 aide costs be reported in a separate cost center.

Therefore, we recommend that SED disallow \$18,105 in consultant expenses that did not comply with the Manual's guidelines.

Staff Development

For reimbursement purposes, conferences include meetings, conventions, symposiums, seminars, or other such assemblies whose primary purpose is the dissemination of technical information. The Manual states that conferences must be directly related to the education program or the administration of the program in order to be reimbursable. Upon audit, entities are required to provide brochures, agendas, or other literature to verify attendance and to document the purpose of the conference or meeting. Furthermore, documentation to support the cost of meetings and conferences must include the names and job titles of staff who attended and the program(s) served by each staff person. Costs for food, beverages, entertainment, and other related costs for meetings, including Board meetings, are not reimbursable.

We determined that \$16,487 in staff development expenses were not allowable because there was no agenda or other literature to verify attendance and to document the purpose of the training. Kids-Centric officials acknowledged that they did not maintain the original required documents. Consequently, we recommend that SED disallow \$16,487 in staff development expenses that did not comply with the Manual's guidelines.

Other Unsupported/Ineligible Expenses

According to the Manual, all purchases must be supported with invoices listing items purchased and indicating date of purchase and date of payment, as well as canceled checks. The Manual also states that costs must be reasonable, necessary, program-related, and supported by sufficient and appropriate documentation.

For the three fiscal years ended June 30, 2013, we identified \$20,549 in expenses for which there was no supporting documentation or the provided documentation was insufficient to determine

whether the items purchased were related to the SED Programs. The disallowed expenses we identified are as follows:

- \$15,447 in unsupported expenses, including \$9,346 relating to checks written out to teachers for classroom supplies and materials. Kids-Centric officials could not provide any of the required receipts or invoices to support the expenditures;
- \$2,797 for equipment and supplies already funded through federal IDEA grants;
- \$1,455 in legal expenses that were not supported by itemized invoices showing the specific services provided; and
- \$850 in other ineligible expenses.

In total, we recommend that SED disallow \$20,549 in expenses that did not comply with SED's reimbursement requirements.

Recommendations

To SED:

1. Review the recommended disallowances resulting from our audit and make the appropriate adjustments to the costs reported on Kids-Centric's CFRs and to Kids-Centric's reimbursement rates.
2. Work with Kids-Centric officials to help ensure their compliance with Manual provisions.

To Kids-Centric:

3. Ensure that costs reported on future CFRs comply with all the requirements in the Manual.

Audit Scope and Methodology

We audited the costs reported on Kids-Centric CFRs to determine whether they were properly documented, program-related, and allowable pursuant to SED's Manual. The audit included all claimed expenses for fiscal year 2012-13, and certain expenses claimed on Kids-Centric's CFRs for the two fiscal years ended June 30, 2012.

To accomplish our objectives, we reviewed the Manual and the Consolidated Fiscal Reporting and Claiming Manual, Kids-Centric's CFRs, and relevant financial records for the audit period. We also interviewed Kids-Centric officials, staff, and independent auditors to obtain an understanding of their financial and business practices. To complete our audit work, we selected a judgmental sample of costs reported by Kids-Centric for review. Our sample took into account the relative materiality and risk of the various costs reported by Kids-Centric. We assessed the sample of reported costs to determine whether they were supported, program-appropriate, and reimbursable. Our review of Kids-Centric's internal controls focused on the controls over the CFR preparation process.

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

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. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

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.

Reporting Requirements

We provided a draft copy of this report to SED and Kids-Centric officials for their review and formal comment. We considered their comments in preparing this final report and attached those comments to it. In responding to our draft report, SED officials agreed with our recommendations. In their response, Kids-Centric officials accepted some of our conclusions, but disagreed with other proposed disallowances. Our rejoinders to certain Kids-Centric comments are included in the report's State Comptroller's Comments. Also, Kids-Centric attached certain documents and records to their response to the draft report, and due to the length and nature of those attachments, they are not included in this report. However, the attachments have been retained on file at the Office of the State Comptroller.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Education shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and if the recommendations were not implemented, the reasons why.

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Exhibit

Kids-Centric, Inc.
Schedule of Submitted and Disallowed Program Costs
For Fiscal Years 2010-11, 2011-12, and 2012-13

Program Costs	Amount Per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services				
Direct	\$9,963,493	\$130,743	\$9,832,750	
Agency Administration	1,859,696	8,524	1,851,172	
Total Personal Services	\$11,823,189	\$139,267	\$11,683,922	A, B, I
Other Than Personal Services				
Direct	\$1,673,742	\$154,583	\$1,519,159	
Agency Administration	700,661	7,751	692,910	
Total Other Than Personal Services	\$2,374,403	\$162,334	\$2,212,069	A, C - H, J - M
Total Program Costs	\$14,197,592	\$301,601	\$13,895,991	

Notes to Exhibit

The following Notes refer to specific sections of SED's Reimbursable Cost 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 Kids-Centric officials during the course of our audit.

- A. Section II - Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented.
- B. Section II.14.A (10) (July 2011 Edition) - Bonus compensation shall mean a non-recurring and non-accumulating (i.e., not included in base salary of subsequent years) lump sum payment(s) in excess of regularly scheduled salary which is not directly related to hours worked. Bonus compensation is restricted to direct care titles/employees only and will not be reimbursed if paid to subcontractors and/or independent consultants. Bonus compensation may be reimbursed if based on merit as measured and supported by employee performance evaluations and does not exceed 5 percent of salary for any direct care employee.
- C. Section II.20.B - All personal expenses, such as personal travel expenses, laundry charges, beverage charges, gift certificates to staff and vendors, flowers or parties for staff, holiday parties, repairs on a personal vehicle, rental expenses for personal apartments, etc., are not reimbursable unless specified otherwise in this Manual.
- D. Section II.21 - Costs resulting from violations of or failure by the entity to comply with federal, State and/or local laws and regulations, are not reimbursable.
- E. Section II. 30 - For reimbursement purposes, conferences are generally defined to include meetings, conventions, symposiums, seminars, SED-sponsored sessions, or other such assemblies whose primary purpose is the dissemination of technical information. Conferences must be directly related to the education program or to the administration of the program. Programs shall be required upon audit to provide brochures, agendas, or other literature that verify attendance and document the purpose of the conference or meeting.
- F. Section II.30.C - Costs for food, beverages, entertainment, and other related costs for meetings, including Board meetings, are not reimbursable.
- G. Section II.59 - Travel costs include costs of transportation, lodging, and subsistence incurred by employees in travel status on official school business. Reimbursement for such travel costs shall be consistent with Bulletins issued by the N.Y.S. Division of the Budget and the Office of the State Comptroller. Refer to Section VI. Appendix C.
- H. Section III.1 - Costs will not be reimbursable on field audit without appropriate written documentation of costs.
- I. Section III.1.A (July 2009/ 2010 Edition) - Compensation costs must be based on approved, documented payrolls. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid. Employee time sheets must be signed by the employee and a supervisor, and must be completed at least monthly.
- J. Section III.1.C (2) - Adequate documentation includes, but is not limited to, the consultant's

resume, a written contract that includes the nature of the services to be provided, charge per day, and service dates. All payments must be supported by itemized invoices that indicate the specific services actually provided; and for each service, the date(s), number of hours provided, the fee per hour, and the total amount charged. In addition, when direct care services are provided, the documentation must indicate the names of the students served, the actual dates of service, and the number of hours of service to each child on each date.

- K. Section III.D - All purchases must be supported with invoices listing items purchased and indicating date of purchase and date of payment, as well as canceled checks. Costs must be charged directly to specific programs whenever possible. The particular program(s) must be identified on invoices or associated documents.
- L. Section III.1.E - Logs must be kept by each employee indicating dates of travel, destination, purpose, mileage, and related costs, such as tolls, parking, and gasoline, and approved by a supervisor to be reimbursable.
- M. Section III.1.J (2) - Vehicle use must be documented with individual vehicle logs that include at a minimum: the date, time of travel, to and from destinations, mileage between each, purpose of travel, and name of traveler.

Agency Comments - State Education Department



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY
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December 23, 2015

Mr. Frank Patone
Audit Director
Office of the State Comptroller
Division of State Government Accountability
59 Maiden Lane, 21st Floor
New York, NY 10038

Dear Mr. Patone:

The following is the New York State Education Department's (SED) response to the draft audit report, 2014-S-73, Compliance with the Reimbursable Cost Manual: Kids-Centric, Inc.

In addition to the actions that will be taken in response to the specific recommendations described below, SED will closely examine the circumstances that led to the findings described in the audit report. This examination will include an assessment of the programmatic oversight and fiscal management employed at Kids Centric, Inc. (Kids-Centric) and will be a factor in the consideration of the continued approval of this provider and the corrective action or enforcement actions that may be warranted.

Recommendation 1:

Review the recommended disallowances resulting from our audit and make the appropriate adjustments to the costs reported on Kids-Centric's CFRs and to Kids-Centric's reimbursement rates.

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:

Work with Kids-Centric officials to help ensure their compliance with Manual provisions.

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the Kids-Centric officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual (RCM). Furthermore, Consolidated Fiscal Report

(CFR) training is available both in person, at one of the six locations it is offered across the State, and online on SED's webpage. SED recommends that all individuals signing the CFR certification statements, namely Executive Directors and Certified Public Accountants, complete this training. At the direction of the Board of Regents, the Department intends to require that this training be mandatory and will require individuals to verify that they have completed the training.

If you have any questions regarding this response, please contact Suzanne Bolling, Director of Special Education Fiscal Services at (518) 474-3227.

Sincerely,



Sharon Cates-Williams

c: James P. DeLorenzo
Belinda Johnson
Suzanne Bolling

Agency Comments - Kids-Centric, Inc.



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December 21, 2015

VIA E-MAIL & OVERNIGHT MAIL

Mr. Frank Patone
Audit Director
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Division of State Government Accountability
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Albany, New York 12236

Re: State Education Department
Kids-Centric, Inc. // 2014-S-73
Compliance with the Reimbursable Cost Manual

Dear Mr. Patone:

We have reviewed the draft audit findings of Kids-Centric, Inc. for audit years 2010-11, 2011-12, and 2012-13 as referenced above and appreciate the revisions made to the preliminary reports based upon the supplemental documentation and explanations provided at the exit conference and in subsequent exchanges specifically as relates to certain travel expenses, instructional supplies and consultant expenses. We renew our challenges to a select number of findings, however, and request reconsideration of the information provided herein.

Personal Service Costs

Unsupported Salary Expenses

We challenge the audit representation that certain personal service charges reported in fiscal year ending 2011 were unsupported (\$31,012). As we shared with the auditors, these specific costs had been miscoded on the CFR, and should have been reported as legitimate and allowable costs associated with another education cost center. We request these costs be properly described as misclassified rather than “unsupported”.

*
Comment
1

As we also shared with the auditors, we challenge any analysis which ignores the effect of reclassification of salaries and unrelated fringes to an administrative cost (\$28,244). As auditors are aware, administrative salaries are allocated agency-wide through the ratio value methodology, some portion of which being appropriately allocated to the SEIT program from which the disallowance was made. In addition, \$7,550, inclusive of mandated and non-mandated fringes, was reclassified to the 9160 program, effectively increasing actual personal cost in

*
Comment
2

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* See State Comptroller’s Comments, Page 22.

Mr. Frank Patone
December 21, 2015
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excess of salaries reported on the CFR. We would respectfully suggest that the auditors' analysis, as presented in the Draft Report, be revised accordingly.

Duplicate Expenses

We challenge a portion of the \$44,799 in salary costs proposed to be disallowed based upon partial funding through separate sources which, as the auditors allege, were duplicative. Time records and other documentation shared with the auditors supported the entirety of costs associated with the employee for fiscal year ending June 2013 (\$23,679). We are concerned that that portion of those salary costs associated with fringe benefits (\$2,612) appears to remain as a disallowance without basis.

*
Comment
3

Bonuses

We renew our challenge to the auditors' categorization of \$34,685 in compensation costs as employee bonuses unsupported by employee performance evaluations.

As we shared at the exit conference, Kids Centric is well aware of the RCM provisions governing performance based bonuses, as reflected by the fact that the auditors reviewed and found compliant the protocols and procedures used by Kids Centric for determining bonuses. However, Kids Centric was forced to make "bonus" accommodations for a select few employees who threatened to sever their employment relationship with the school unless immediate salary adjustments were made. Given the uncertainty of cash flow at the end of a school year, Kids Centric was unable to make a salary adjustment per se, but retained these vital staff through award of a "retention" bonus with every intention of "converting" the bonus into permanent salary adjustments with the coming of the school year when cash flow allowed. As the attached chart reflects, with minor exception, the salaries of each of the employees who received the retention bonus were enhanced on a permanent basis with the beginning of the new school year in September. One such exception (MV) did not receive an adjustment because she was unable to successfully complete the examination portion of her permanent teacher certification. We would argue that these retention bonuses were an aberration and were necessary under the threat of the employee's departure.

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Comment
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Other than Personal Service Costs

Travel Expenses

Kids Centric had already strengthened internal control procedures around maintaining appropriate travel logs at the time of the audit and do not challenge a significant portion of the findings. We reassert our position, however, that these costs were to the benefit of staff, students and families.

We also renew our challenge of \$960 disallowance associated with a COTA employee (PJ) for which Kids Centric provided substantial documentation (receipts) representative of a

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pattern of travel to and from a remote service location by taxi. As shared with the auditors, the clinician's invoices supported the travel claims which are legitimate expenses authorized by the RCM as discrete components of the total consultant fee.

We also renew our challenge of a \$377.25 disallowance associated with reimbursement of MetroCard expenses necessary to provide services to a child displaced by Hurricane Sandy. Without the MetroCards, the family would simply be unable to bring the student to the service site, thus preventing implementation of the IEP. No other travel means or reimbursement mechanism was available. These properly receipted expenses should, therefore, be recognized as legitimate.

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We also renew our challenge of a \$285.72 disallowance associated with parking and taxi receipts for which supporting documentation was provided, including staff schedules. We disagree with the auditor's assertion that logs are required by the RCM to support these expenses.

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Comment
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Food Expenses

While Kids Centric does not challenge the finding of disallowance relating to certain food expenses, we do restate our position that the expenses were incurred for the exclusive benefit of the staff, parents and the students we serve.

Staff Development

We challenge the auditors' finding that insufficient documentation was provided to support certain staff development costs. Kids Centric provided information around the training materials and other documentation that confirmed the meetings. We believe we have substantially complied with the requirements sufficient to warrant allowance of the costs.

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Comment
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Other Expenses

Kids Centric also challenges the disallowance of costs determined by the auditors to be unsupported or ineligible. More specifically:

- \$95 in instructional supply costs: reflected in a Land's End invoice with sufficient detail to warrant allowance, as previously provided to the auditors.
- \$2,797 in supplies: as we shared with the auditors, these supplies were not funded through the 611/619 federal grants, as well as to program, as the auditors suggest, but rather were charged exclusively to the grants.

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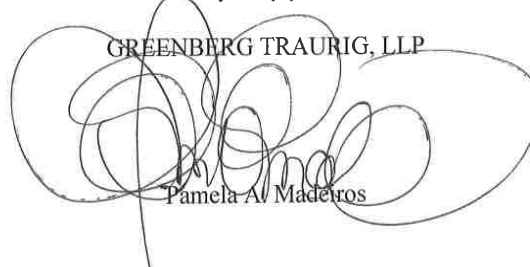
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We appreciate the opportunity to provide comment in response to the Draft Report and trust that our information will be given due consideration.

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Comment
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Very truly yours,

GREENBERG TRAURIG, LLP

Pamela A. Madeiros

PAM/lle
ALB 1895998v3

cc: Ms. MaryEllen Elia, Commissioner
Ms. Suzanne Bolling

State Comptroller's Comments

1. Kids-Centric officials did not provide adequate documentation for these specific costs. Consequently, we maintain that the costs in question are unsupported.
2. Kids-Centric's assertion is inaccurate. Kids-Centric did not reclassify these expenses on their CFRs. Also, see Comment no. 1.
3. We have revised our report and reduced the duplicate expense disallowance by \$7,987.
4. The \$34,658 in bonuses were not supported by performance evaluations, as otherwise required by the Manual.
5. The Manual is clear in that travel expenses of spouses, family members, or any nonemployees (including consultants, independent contractors, etc.) are not reimbursable unless the spouse or family member is an employee of the entity and a legitimate business purpose exists for them to travel.
6. The Manual is clear in that logs must be kept by each employee indicating dates of travel, destination, purpose, mileage, and related costs such as tolls, parking, and gasoline. Further, such costs must be approved by a supervisor to be reimbursable.
7. The Manual requires providers to maintain brochures, agenda, or other literature to verify attendance and to document the purpose of the conference or meeting. As stated on page 9 of the report, Kids-Centric did not maintain the required documents.
8. The \$95 referred to by Kids-Centric was not part of the reported disallowances.
9. We disagree. The expenses in question were charged to both the SED Programs as well as the federal IDEA grant.
10. Based on information provided by Kids-Centric, we reduced the proposed disallowances for certain other than personal service costs presented in the draft report by \$14,030, and we amended the final report as warranted to reflect this adjustment.