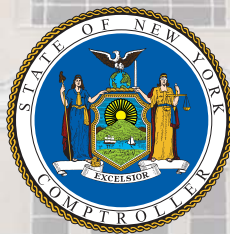




# Integrated Treatment Services, Inc.

## Compliance with the Reimbursable Cost Manual

Report 2009-S-37



Thomas P. DiNapoli



# Table of Contents

	Page
Authority Letter .....	5
Executive Summary .....	7
Introduction.....	9
Background .....	9
Audit Scope and Methodology .....	9
Authority.....	10
Reporting Requirements .....	10
Contributors to the Report .....	10
Audit Findings and Recommendations .....	11
Personal Service Costs.....	11
Other Than Personal Service Costs.....	13
Recommendations .....	14
Schedule of Submitted and Allowed Program Costs .....	15
Notes to Exhibits .....	19
Agency Comments .....	21
SED Response.....	21
ITS Response .....	25
State Comptroller's Comments .....	35



# State of New York Office of the State Comptroller

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## Division of State Government Accountability

May 24, 2010

Dr. David Steiner  
Commissioner  
State Education Department  
State Education Building - Room 125  
89 Washington Avenue  
Albany, NY 12234

Ms. Judith Brenner  
Executive Director  
Integrated Treatment Services, Inc.  
6010 New Utrecht Avenue  
Brooklyn, NY 11219

Dear Dr. Steiner and Ms. Brenner:

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 of our audit of Integrated Treatment Services: *Compliance with the Reimbursable Cost Manual*. This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1, of the State Constitution and Article II, Section 8, of the State Finance 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*





# State of New York Office of the State Comptroller

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## EXECUTIVE SUMMARY

### **Audit Objectives**

Our objectives were to determine whether the costs reported by Integrated Treatment Services, Inc. on the consolidated fiscal reports (CFR) were properly calculated, adequately documented and allowable under the State Education Department's Reimbursable Cost Manual (Manual) for the two years ended June 30, 2008.

### **Audit Results - Summary**

Integrated Treatment Services, Inc. (Integrated) is a corporation organized under the laws of the State of New York to provide special education itinerant teaching and related services to children. Integrated serves about 300 children in its programs. The New York City Department of Education (DoE) pays Integrated based upon rates established by the State Education Department (SED). SED establishes the reimbursement rates based on information obtained from Integrated's CFR. During fiscal years 2006-07 and 2007-08, Integrated had 22 and 27 employees, respectively.

We concluded that costs reported on Integrated's CFR were not always properly calculated, adequately documented and allowable for use in calculating reimbursement rates. We identified \$511,615 of costs that were inappropriately included in the calculation of rates used to reimburse Integrated.

For example, we found that certain employees of Integrated received bonus compensation totaling \$337,920 but the bonus system did not conform to SED's Manual requirements to be based upon performance and merit. We found inconsistent treatment of staff and that family relationships with Integrated owners and executive staff appeared to have an influence as to whether a bonus was awarded or not. Therefore we have recommended a downward adjustment in the personal service costs on the 2006-07 and 2007-08 CFR's. We also found that \$75,000 for office renovations was inappropriately included in tuition rate calculations because the proposal for the renovations was not first submitted to SED for approval as required. Moreover, SED officials informed us that they would not have approved the renovations if they had been informed about them. In addition, we identified \$61,773 for custom software development that was not necessary for program operation and should not have been included for tuition rate determinations. SED officials advised us that they were not aware of any provider developing custom software in support of program needs and that many providers were already using less expensive commercial off-the-shelf software for certain programs. Moreover, to be included as allowable costs on the CFR, SED requires that

contracts for services must be obtained through Requests for Proposals or supported with other documentation of bidding and there must be justification that the service contractor was both economical and/or appropriate for the service. Integrated did not have support for compliance with these requirements.

We recommend that SED review the exceptions identified by our audit and determine necessary adjustments to tuition reimbursement rates for Integrated. We also recommended that Integrated ensure that its reporting of reimbursable expenses complies with SED requirements. In response to our draft report, SED officials agreed with our recommendations and, while Integrated officials disagreed with some of our specific interpretations and related disallowances, they expressed a commitment to full compliance in the future.

This report, dated May 24, 2010, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or

Office of the State Comptroller

Division of State Government Accountability

110 State Street, 11<sup>th</sup> Floor

Albany, NY 12236



# Introduction

## Background

Integrated Treatment Services, Inc. (Integrated), a corporation organized under the laws of the State of New York, is located in Brooklyn and provides special education itinerant teaching services (code 9135) and related services (code 9200), such as speech and occupational therapy to children. Integrated serves children between 3 and 12 years of age. The New York City Department of Education (DoE) pays tuition and fees to Integrated using rates established by SED. SED establishes these rates by using financial information that Integrated presents in an annual consolidated fiscal report (CFR) filed with SED. During fiscal years 2006-07 and 2007-08, Integrated had 22 and 27 employees, respectively.

SED reviews the costs and revenues reported on the CFR and then inputs that data to SED's rate-setting system. Once calculated, the rates are subject to the review and approval of the New York State Division of the Budget. To provide guidance on the eligibility of costs and allocation of non-direct care costs, SED issued the Reimbursable Cost Manual (Manual). All costs reported on the CFR must fully comply with the Manual.

## Audit Scope and Methodology

We audited the costs reported by Integrated on its CFR for the fiscal years ended June 30, 2007 and June 30, 2008. The objectives of our audit were to determine whether the costs reported by Integrated were properly calculated, adequately documented and allowable under SED's Manual.

To accomplish our objectives, we reviewed Integrated's financial records, including audit documentation maintained by Integrated's independent certified public accountants. We also interviewed Integrated's officials, staff, and their certified public accountants, as well as SED officials. To complete our audit work, we selected a judgmental sample of costs reported by Integrated for review. Our sample took into account the relative materiality and risk of the various costs reported by Integrated. The scope of audit work on internal control focused on gaining an understanding of the procurement and disbursement procedures related to non-personal service expenditures and procedures related to setting bonuses for Integrated's employees. We identified certain significant control deficiencies that were significant to the audit's objectives. These are discussed in the appropriate sections of our audit report.

We conducted our compliance 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 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 and Article II, Section 8, of the State Finance Law.

**Reporting  
Requirements**

We provided a copy of this report, in draft, to SED and Integrated officials for their review and comments.

We have considered their comments in preparing this audit report and have included them, in their entirety, at the end of this report. Our rejoinder to Integrated's comments is included thereafter in our State Comptroller's Comments.

SED officials agreed with the recommendation we addressed to them and advised that they had already disallowed some of the inappropriate personal service costs that we identified. They also advised that they will disallow the remaining inappropriate service costs, as well as the inappropriate other than personal service costs that we identified.

ITS officials disagreed with some of our specific interpretations and related disallowances. They also expressed a commitment to full compliance in the future.

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 recommendation contained herein, and if the recommendation was not implemented, the reasons why. We also request officials of Integrated Treatment Services, Inc. to advise the State Comptroller of actions taken to implement the recommendation addressed to them, and where such recommendation was not implemented the reasons why.

**Contributors to  
the Report**

Major contributors to this report were Kenrick Sifontes, Stephen Lynch, Tania Zino, Jonathan Bernstein, Katrina Lau and Hugh Zhang.

## Audit Findings and Recommendations

### Personal Service Costs

Personal service costs must be reported on the CFR as either direct care costs (such as teachers' salaries) or non-direct care costs (such as administrators' salaries). According to the Manual, costs will be considered for reimbursement provided such costs are reasonable, necessary, and directly related to the education program and are sufficiently documented. The Manual states that bonus compensation may be included on the CFR as an allowable cost if the bonuses are provided to employees based on merit as measured and supported by employee performance evaluations. Integrated included bonuses totaling \$141,688 on the CFR for 2006-07 year and \$196,232 on the CFR for the 2007-08 year.

To determine if the bonuses were allowable, we reviewed Integrated's Personnel Policies, the employee ratings for a sample of the staff and the actual bonuses awarded. Based on this review we conclude that Integrated's bonuses are not an allowable cost for the CFR. Integrated's Personnel Policies states that performance bonuses may be given at the discretion of management and are typically based upon performance and the availability of funds. Allowing for management discretion is contrary to the Manual's requirements that bonuses be provided on merit, based on employee performance ratings. Our review of the employee performance ratings and the bonuses confirmed that Integrated did use discretion in awarding bonuses and that family relationships appeared to be a factor in the size of and the awarding of bonuses.

Integrated's Personnel Policies do not detail a formal system for the rating of employees and the awarding of bonuses so we asked Integrated officials to provide us with the criteria used for the 2006-07 year and the 2007-08 year. We were informed that performance ratings are given out on a scale of 1 to 5 points and that employees who received a rating of 3.5 or higher for 2006-07 and 2007-08 were eligible for a bonus. For the 2006-07 year, we were told that bonuses of between \$1,800 and \$4,500, were paid dependent upon the rating that was given. For 2007-08, we were informed that bonuses ranged from \$4,458 and up. We reviewed 2006-07 ratings for 19 of the 22 employees and found that 16 employees were eligible for bonuses. However, bonuses were only provided to 7 of the 16 eligible employees. Similar problems were found with the 2007-08 year. We reviewed the performance ratings for 18 of the 27 staff and found that each of the 18 employees received a rating of 3.5 or higher. However, only 11 of the 18 employees received a bonus.

We also reviewed the amount of the bonuses awarded to the employees and found that in 2006-07, all but one of the bonuses exceeded the \$4,500 limit and there was no direct relationship between the size of the bonus and the rating. For 2007-08 we found similar problems. Staff members

with lower ratings received higher bonuses. Lastly, we conclude that family relationship appears to be a factor in whether a bonus was awarded. We noted that 6 out of 7 bonuses in 2006-07 were awarded to relatives of Integrated's owners and executive staff. For 2007-08, 8 out of 11 bonuses went to relatives as well. The following table illustrates the inconsistencies in bonus compensation at Integrated.

Title	Fiscal Year 2006-07				Fiscal Year 2007-08			
	Salary	Rating	Bonus Received	% of Salary	Salary	Rating	Bonus Received	% of Salary
Bookkeeper *	\$60,000	4	\$41,508	69%	\$89,947	4	\$26,184	29%
Office Manager*	\$40,540	4	\$32,835	81%	\$51,500	4.18	\$30,138	59%
Information Systems Manager*	\$60,000	4.6	\$32,277	54%	\$70,023	4.5	\$50,098	72%
Office Assistant *	\$25,000	4.1	\$13,542	54%	\$33,000	4.1	\$17,117	52%
Attendance Clerk *	\$18,750	4	\$9,975	53%	\$26,000	4.4	\$16,803	65%
Filing Clerk 1 *	\$25,000	4	\$9,751	39%	\$33,228	4.2	\$31,508	95%
Administrative Asst 1	\$30,400	3.5	\$1,800	6%	\$40,000	3.5	\$7,638	19%
Administrative Asst 2	-	-	-	-	\$27,000	4	\$6,076	23%
Accts Payable Clerk	-	-	-	-	\$18,940	4.4	\$4,785	25%
Filing Clerk 2 *	-	-	-	-	\$10,000	4	\$3,346	33%
Filing Clerk 3 *	-	-	-	-	\$10,000	4	\$2,539	25%

\* Indicates relative of Integrated executives

We adjusted the reported personal service costs down by a total of \$337,920 (includes \$141,688, for the fiscal year 2006-07 and \$196,232 for the fiscal year 2007-08) to remove the bonuses because Integrated's officials did not comply with their own policy or the Manual.

## **Other Than Personal Service Costs**

The Manual provides guidance as to what costs are eligible for reimbursement and what documentation is required to properly support the costs reported on the CFR. Reported costs should be reasonable, necessary, program-related and properly documented. The Manual also states that certain types of costs are not eligible for reimbursement through the tuition rate-setting process. Specifically, personal expenditures, travel expenses for spouses, family members or any non-employees (among other costs) are not reimbursable. Because Integrated sometimes did not comply with the Manual, we disallowed a total of \$173,695 (includes \$165,501 for fiscal year 2006-07 and \$8,194 for fiscal year 2007-08) in other-than-personal-service costs reported by Integrated.

The disallowed costs include \$75,000 for renovations that were made to Integrated's office, kitchenette, and bathroom. (In response to our draft report, Integrated officials stated that these renovations were necessary for the operation of their business.) However, according to the Manual, proposals for renovations, alterations or major repairs must first be submitted to the SED for review and comment. We found that the proposals for these renovations were not submitted to SED and therefore, SED was not aware of these repairs. Moreover, SED officials advised us that they would not have approved these renovations had they known about them. Therefore, Integrated should not have claimed this expense on the CFR.

In fiscal year 2006-07, Integrated entered into a contract for \$61,773 to develop custom software to help them manage their special education itinerant teacher (SEIT) and related services programs. However, we found that these services were not subject to competitive procurement. As per the Manual, Requests For Proposals (RFP) or other bidding documentation must be kept on file by the entities operating the program. Further, the entity needs to justify that the consultant hired was both economical and/or appropriate for the particular service. We determined that Integrated officials had not complied with either of these requirements.

SED officials informed us that the custom software development was not necessary for program operations and SED officials were not aware of any other provider who had developed their own custom software. SED officials also advised us that a software program had already been developed for related services which many other providers use. Since Integrated had 264 students in 2006-07, the cost of using this software would have been approximately \$2,084 (a \$500 administrative fee plus \$6 per student). Instead, Integrated paid \$61,773. Although there is no common software program for SEIT services, SED advised us that other SEIT providers use commercial off-the-shelf products. The costs of these products are approximately \$500. Taking these costs into consideration, we disallow the difference of \$59,189.

As per the Manual, travel expenses of spouses, family members or any non-employee are not reimbursable. We disallowed \$11,432 in transportation reimbursement to non-employees (includes \$8,156 for fiscal year 2006-07 and \$3,276 for fiscal year 2007-08). Additional other-than-personal-service disallowances included:

- \$15,032 in fiscal year 2006-07 for unsupported general journal entry for Contracted Personal Services and Office Supplies/Postage;
- \$9,487 (includes \$5,881 for fiscal year 2006-07 and \$3,606 for fiscal year 2007-08) for various expenses that were inadequately documented and/or ineligible;
- \$3,554 (includes \$2,243 for fiscal year 2006-07 and \$1,311 for fiscal year 2007-08) for cell phone expenses that were inadequately documented.

(Please refer to the exhibits shown on the following pages for more information regarding submitted expenses, allowed amounts, disallowances, and the reasons for the disallowances. The details of our adjustments were provided to Integrated and to SED officials for their review.)

#### **Recommendations To SED**

1. Review the adjustments resulting from our audit, and make the appropriate adjustments to the costs reported on the CFR. Re-compute the tuition rate and take appropriate action to recover any overpayments.

(SED officials stated that certain portions of the adjustments we proposed to the CFR amounts were already made, based upon the annual SED rate setting review. Additional adjustment actions will be taken based upon our determinations.)

#### **To Integrated**

2. Comply with the Manual's requirements for eligibility and documentation or reported program costs.

(Integrated officials agree with this recommendation.)

**Integrated Treatment Services**  
**Schedule of Submitted and Allowed Program Costs**  
**Preschool Special Education Itinerant Teacher (9135) Program**  
**For the Fiscal Year July 1, 2006 through June 30, 2007**

	Amount Per CFR	Disallowed (Allowed)	Amount Allowed Per Audit	Notes to Exhibit
<b>Personal Service</b>	\$957,865	\$46,141	\$911,724	C
<b>Fringe Benefits</b>				
Mandated Fringe Benefits	\$79,063	\$0	\$79,063	
Other Fringe Benefits	\$33,298	\$0	\$33,298	
<b>Total Fringe Benefits</b>	\$112,361	\$0	\$112,361	
Staff Travel	\$13,644	\$8,156	\$5,488	H
Staff Development	\$1,702	\$818	\$884	D, I
Contracted Direct Care	\$2,161,974	\$0	\$2,161,974	
Supplies & Materials (Non-household)	\$187,341	\$0	\$187,341	
Other/Computer Services	\$121,215	\$59,018	\$62,197	A
<b>Total OTPS</b>	\$2,485,876	\$67,992	\$2,417,884	
<b>Total Operating Costs</b>	\$3,556,102	\$114,133	\$3,441,969	
Agency Administration Allocation	\$843,337	\$188,950	\$654,387	C, B, E, G, I, J
<b>Total Program Costs</b>	<b>\$4,399,439</b>	<b>\$303,083</b>	<b>\$4,096,356</b>	

**Integrated Treatment Services**  
**Schedule of Submitted and Allowed Program Costs**  
**Preschool Special Education Itinerant Teacher (9200) Program**  
**For the Fiscal Year July 1, 2006 through June 30, 2007**

	Amount Per CFR	Disallowed (Allowed)	Amount Allowed Per Audit	Notes to Exhibit
<b>Personal Service</b>	\$10,571	\$1,015	\$9,556	C
<b>Fringe Benefits</b>				
Mandated Fringe Benefits	\$825	\$0	\$825	
Other Fringe Benefits	\$367	\$0	\$367	
<b>Total Fringe Benefits</b>	\$1,192	\$0	\$1,192	
Contracted Direct Care and Clinical Personal Service	\$154,293	\$0	\$154,293	
Other/Computer Services	\$2,255	\$171	\$2,084	A
<b>Total OTPS</b>	\$156,548	\$171	\$156,377	
<b>Total Operating Costs</b>	\$168,311	\$1,186	\$167,125	
Agency Administration Allocation	\$39,915	\$2,920	\$36,995	C,B,E,G,I,J
<b>Total Program Costs</b>	<b>\$208,226</b>	<b>\$4,106</b>	<b>\$204,120</b>	



**Integrated Treatment Services**  
**Schedule of Submitted and Allowed Program Costs**  
**Preschool Special Education Itinerant Teacher (9135) Program**  
**For the Fiscal Year July 1, 2007 through June 30, 2008**

	Amount Per CFR	Disallowed (Allowed)	Amount Allowed Per Audit	Notes to Exhibit
<b>Personal Service</b>	\$2,149,890	\$16,803	\$2,133,087	C
<b>Fringe Benefits</b>				
Mandated Fringe Benefits	\$178,400	\$0	\$178,400	
Other Fringe Benefits	\$37,668	\$0	\$37,668	
<b>Total Fringe Benefits</b>	\$216,068	\$0	\$216,068	
Staff Travel	\$9,024	\$3,276	\$5,748	H
Staff Development	\$10,120	\$0	\$10,120	
Contracted Direct Care	\$2,154,625	\$0	\$2,154,625	
Supplies & Materials (Non-household)	\$110,284	\$0	\$110,284	
Other	\$259	\$0	\$259	A
<b>Total OTPS</b>	\$2,284,312	\$3,276	\$2,281,036	
<b>Total Operating Costs</b>	\$4,650,270	\$20,079	\$4,630,191	
Agency Administration Allocation	\$962,168	\$184,199	\$777,969	C, A, E, F, G, J
<b>Total Program Costs</b>	<b>\$5,612,438</b>	<b>\$204,278</b>	<b>\$5,408,160</b>	

**Integrated Treatment Services**  
**Schedule of Submitted and Allowed Program Costs**  
**Preschool Special Education Itinerant Teacher (9200) Program**  
**For the Fiscal Year July 1, 2007 through June 30, 2008**

	Amount Per CFR	Disallowed (Allowed)	Amount Allowed Per Audit	Notes to Exhibit
<b>Personal Service</b>	\$15,793	\$0	\$15,793	
<b>Fringe Benefits</b>				
Mandated Fringe Benefits	\$1,311	\$0	\$1,311	
Other Fringe Benefits	\$1,267	\$0	\$1,267	
<b>Total Fringe Benefits</b>	\$2,578	\$0	\$2,578	
Contracted Direct Care and Clinical Personal Service	\$165,662	\$0	\$165,662	
<b>Total OTPS</b>	\$165,662	\$0	\$165,662	
<b>Total Operating Costs</b>	\$184,033	\$0	\$184,033	
Agency Administration Allocation	\$38,077	\$148	\$37,929	C,B,E,G,I,J
<b>Total Program Costs</b>	<b>\$222,110</b>	<b>\$148</b>	<b>\$221,962</b>	

## **Notes to Exhibits**

The Notes shown below refer to specific sections of the Reimbursable Cost Manual upon which we have based our adjustment. We have summarized the applicable section to explain the basis for the disallowance. Details of the transactions in question were provided to SED and Integrated officials during the course of our audit.

- A. Section 1 - Costs must be reasonable, necessary, program related and sufficiently documented.
- B. Section 1.9 A - Proposals for renovations, alterations or major repairs must be submitted to the SED for review and comment.
- C. Section 1.14 A - Bonus compensation may be reimbursed if based on merit as measured and supported by employee performance evaluations.
- D. Section 1.15 E - Fringe benefit costs for independent contractors or consultants are not reimbursable.
- E. Section 1.21 B - All personal expenses are not reimbursable unless specified otherwise in the Manual.
- F. Section 1.54 A - Any amounts greater than the minimum State or Local corporation taxes are not reimbursable.
- G. Section 1.55 B - Long distance telephone charges and all cell phone charges that are not properly documented will not be reimbursed.
- H. Section I.57.F - Travel expenses of spouses, family members or any non-employee are not reimbursable.
- I. Section II.A - Costs will not be reimbursable without appropriate written documentation.
- J. Section II.A 4 - All purchases must be supported with invoices listing items purchased and indicating date of purchase and date of payment, as well as canceled checks.



## Agency Comments



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

DEPUTY COMMISSIONER FOR OPERATIONS  
AND MANAGEMENT SERVICES  
Tel. (518) 474-2547  
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April 22, 2010

Mr. Steven E. Sossei, CPA  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

Dear Mr. Sossei:

Below is the State Education Department's (SED's) response to the recommendation contained in the Office of the State Comptroller's 2009-S-37 Audit Report which addresses special education itinerant teacher service rates for Integrated Treatment Services, Inc. (ITS).

**Recommendation 1:**

**Review the adjustments resulting from our audit, and make the appropriate adjustments to the cost reported on the CFR. Re-compute the tuition rate and take appropriate action to recover any overpayments.**

We agree with this recommendation. As discussed below, the Rate Setting Unit (RSU) review process and application of the rate setting methodology had already disallowed much of the bonus payment amounts that were included in personal services. However, we will further adjust to reflect the remaining bonus amount and the Other-Than-Personal-Service items.

**July 1, 2006 – June 30, 2007**

**Personal Service (PS)** - For the 2006-07 fiscal year, SED's RSU disallowed \$155,185 in salary costs of some administrative employees by adjusting their salaries downward to regional average salaries. In making these adjustments, RSU disallowed \$114,345 of the \$140,673 in bonus payments that OSC recommended be disallowed. RSU agrees with OSC that ITS did not comply with the Reimbursable Cost Manual's bonus policies and will disallow the remaining bonuses of \$26,328 recommended by OSC.

**Other-Than-Personal-Service (OTPS)** - RSU agrees with OSC's findings on OTPS and will disallow the \$162,410 recommended by OSC.

**Summary** - These additional PS and OTPS disallowances will result in a re-calculated 2006-07 rate of \$43 per half-hour compared to the current certified rate of \$45 per half hour. When ITS adjusts its billing for 2006-07 using the lower rate of \$43, counties and the State will recoup the disallowed amount.

**July 1, 2007 – June 30, 2008**

**Personal Service (PS)** – For the 2007-08 fiscal year, RSU disallowed \$209,730 in salary costs of some administrative employees by adjusting their salaries downward to regional average salaries. In making these adjustments, RSU disallowed \$152,807 of the \$196,232 in bonus payments that OSC recommends be disallowed. RSU agrees with OSC that ITS did not comply with the Reimbursable Cost Manual's bonus policies and will disallow the remaining bonuses of \$43,425 recommended by OSC.

**Other-Than-Personal-Service (OTPS)** – RSU agrees with OSC findings on OTPS and will disallow the \$8,045 as recommended by OSC.

**Summary** – These additional PS and OTPS disallowances will not change the 2007-08 current certified rate of \$45 per half hour. However, RSU will still adjust the CFR data to disallow these amounts to ensure the CFR is accurate.

**Overall Summary** - To help ensure compliance with the Reimbursable Cost Manual's bonus policies, SED will revise its Reimbursable Cost Manual to:

- limit bonuses to direct care titles/staff,
- establish a five percent of salary limit on individual bonus payments, and
- require providers to submit upon request:
  - the names of employees receiving bonuses and their titles, salaries, bonuses and bonuses as a percent of their salaries,
  - the evaluations and ratings of employees who received bonuses, and
  - their bonus policy.

**Preschool Special Education Itinerant Teacher Program (9200)** - Program 9200, identified in the audit as a Preschool Special Education Itinerant Teacher Program, is a fee-for-service related services program and is not subject to the tuition rate methodology. RSU does not set the fees for Program 9200 or review CFR data for it and, therefore, has no comment on the \$4,254 of disallowances for this Program.

If you have any questions regarding this response, please contact April Wojtkiewicz, Bureau Chief of the Rate Setting Unit, at (518) 402-5668.

Sincerely,



Theresa E. Savo

c: A. Wojtkiewicz  
M. Kogelmann  
J. Conway



INTEGRATED TREATMENT SERVICES

## **RESPONSE TO STATE COMPTROLLER'S AUDIT**

6010 NEW UTRECHT AVENUE, BROOKLYN NY 11219 \* TELEPHONE: 718.431.8938 \* FAX: 718.431.8939

## Table of Contents

Cover Letter .....	1
<b>OTHER THAN PERSONNEL SERVICES</b> .....	3
Travel reimbursement for Itinerant Teachers: .....	3
Telephone .....	4
Computer Services (Software) .....	4
RCM Cost Principles .....	4
Off the shelf related services software system vs. System designed for SEIT services: .....	5
Comparative Analysis of Available Software for SEIT programs: .....	6
Cost reducing benefit .....	7
Maintenance & Repair .....	8
<b>PERSONNEL SERVICES</b> .....	10
Employee Bonus Compensation .....	10

## Table of Figures

Table 1: Comparative Analysis .....	6
-------------------------------------	---





## INTEGRATED TREATMENT SERVICES

March 22, 2010

Mr. Steven E. Sossei, CPA  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, N.Y. 12236

### To Whom It May Concern:

At our first meeting with auditors from the New York State Comptroller's office, we were told that in addition to a careful review of our compliance with the Reimbursable Cost Manual (RCM), the auditors hoped that the audit experience would be a learning one for us and it certainly has been an important education.

As a result of this audit and the numerous discussions and a face to face meeting with senior accountants at the New York State Department of Education Rate Setting Unit, our agency has made significant changes in the operation of our program. But before I review the changes that we have made, I think that it is important to understand who we are and how we began.

### Who we are:

Our SEIT program began in 2003, we were incorporated as a for profit organization. We began with a roster of 10 children and quickly grew. We were three partners and in the early years our families worked overtime tirelessly to assist us in building the program. It was hard to budget salaries, because in the beginning of the year we could begin with 50 students, but by the end of the year we had 125 students.

### Related Parties:

We acknowledge that the hiring of families is an LTAL relationship, however, the RCM in Section I, 14, A(6) discusses compensation to *"all individuals including shareholders, trustees, board members, officers, family members or others who have a financial interest in the program and who are also program employees must be commensurate to actual services provided as program employees or consultants..."* the RCM does not disallow the hiring of family members. In addition at meetings that we attended with the New York City Department of Education, discussions regarding the hiring of relatives were held, and we were advised that relatives could be hired, however, they must be held to the same accountability that other employees were held. In our case, all family members had clearly delineated job descriptions and kept time sheets that

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Page 1 of 10

\* See State Comptroller's Comments, page 35

were signed by their supervisors. We were unaware that the hiring of family was deeply frowned upon by NYSED.

**Computer system:**

As our program grew we desperately needed a computer system to organize our program. We made the decision to purchase a custom system. This decision was made in the best interest of the organization. Although we admit that initially it was a costly decision, as you will see in our detailed response, in the long run it saves money.

**Repairs and Maintenance:**

The costs for maintenance and repair, we felt were necessary for the operation of our program. The work that was done is simple and utilitarian. Although ignorance of the law is not an accepted defense, we honestly did not realize that we needed to get prior approval.

In the past year we have made some very important changes:

- We have hired an accounting firm with extensive experience with State Education programs and CFR reporting
- We have replaced many of the family member employees with non relatives. At this point, the three partners, employee a total of four family members. Their salaries are on par with the regional median compensation for comparable job titles.
- We no longer hire consultant teachers, all teachers are employees, receiving W-2's.

What seems to be lost in the entire audit and CFR process is the quality of the program that we are providing. Our agency is respected by CPSE administrators across New York City. We presently have a roster of 285 students. Many of these students came to our agency, as referrals from the administrators. Using this year's IDEA funds, we have implemented an innovative program that provides counseling to the parents of children enrolled in our program. Our program is vital and vibrant; we have an on-going professional development program that is well attended by all our SEIT providers. We provide supervision to the SEIT providers, utilizing supervisors with Master's degrees in Special Education and School Supervision and Administration.

We feel fully confident that we are on the correct path for full compliance with the Reimbursable Cost Manual.

On the following pages, please see our detailed response to the State Comptroller's audit findings.

Sincerely,

Judith W. Brenner, LMSW, SDA  
Executive Director

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Page 2 of 10

\* See State Comptroller's Comments, page 35

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**Response to disallowances by State Auditors:**

**OTHER THAN PERSONNEL SERVICES**

**Travel reimbursement for Itinerant Teachers:**

**2006-07 Transportation \$8,156**

**2007-08 Transportation \$3,276**

The Reimbursable Cost Manual states on Page 34, Section 47 (3):

*Travel costs incurred by the special education itinerant teacher in providing direct and indirect services or performing other required functions are reimbursable.*

The manual does not make any distinction between a teacher who is an *employee* or who is a *consultant*. We reimbursed teachers for their travel between students. Sometimes an itinerant teacher sees three or four different students in as many different locations in one day. When they are hired they are hired with the understanding that they will be reimbursed for travel between students. They are given a travel log to keep their daily travel expenses. This is not a fringe benefit but rather a program expense.

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Auditors site Section 15E: "*Fringe benefit costs for independent contractors or consultants are not reimbursable*", as a disallowance for travel for consulting teachers. Payment for allowing a SEIT provider to get from child to child is a **program expense** and is **not** a fringe benefit.

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Auditors site Section 57 F: "*Travel expenses of spouses, family members or any non-employees are not reimbursable unless the spouse or family member is an employee of the entity (ies) and a legitimate business purpose exists for them to travel.*"

This section is not relevant to our company as it discusses transportation costs, lodging and subsistence incurred by employees in travel status on official school business. The travel discussed here relates to leasing cars, air travel to meetings and other areas of travel that could potentially lead to misuse of funds if internal controls are not properly instituted. There is no discussion here related to travel by teachers in the direct service of performing their duties. The teachers who were reimbursed for travel were not relatives; the costs reimbursed were not excessive and were instituted in adherence with our understanding of Section 47 (3). **Absolutely no reimbursements for travel were made to family members.**

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\* See State Comptroller's Comments, page 35

**Telephone:**

**2006-07 Telephone \$2,243**

**2007-08 Telephone \$1,311**

In both 2006-07 and 2007-08 cell phone expense has been 100% disallowed. Although the phone is listed under an individual's name as opposed to the entity, it is used more than half the time to conduct business. We do not think that it is appropriate to disallow the entire cell phone expense. We feel that at least half of the expense should be allowed, because the phone was used for business issues more than half of the time.

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**Computer Services (Software):**

**2006-07 Computer Services \$61,773**

**RCM Cost Principles:**

Auditors have disallowed the entire cost of our computer system based on the first line in Section 1 Cost Principles: "*Costs will be considered for reimbursement provided such costs are reasonable, necessary, and directly related to the education program and are sufficiently documented.*"

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Four criteria must be met: reasonableness, necessity, directly related to the education program and documentation.

- The **necessity** of computerizing our program is undeniable. In 2006-2007 our program had close to 300 children and we had 150 providers. There is no way to track services, payments, IEP's, related services, respond to requests for PD reports from State Ed, without a computerized program.
- We invite the auditors to a demonstration of the computer system to witness that it is **directly related to the education program**. It is an interactive system that creates and sets up an application to track SEIT students' and provider data. Students are tracked by school year. The list can be searched by student name and filtered by date of birth. The system allows us to ensure that all students are receiving the services as mandated by their Individual Education Program. The provider application tracks providers' credentials, yearly medicals, payroll information.
- We have a detailed **documented** description of the computer system that describes its capability. All costs related to the computer system have been accurately **documented**.
- **Reasonableness** applies to the cost of the system. This is a subjective term and can only be determined when measured in comparison to similar services, provided by other vendors.



**Off the shelf related services software system vs. System designed for SEIT services:**

It is unfair to suggest that we buy an off the shelf system developed for agencies that provide related services only. Related services and SEIT programs have none of the same parameters.

- Related services are paid on a **fee for services** basis, the provider only bills for the sessions provided and the agency only receives payment for services provided. It is almost impossible for a related services provider to make up for a missed session, since the provider can never exceed the mandate in any week that services are given. Therefore, generally when a provider misses a session, the student never receives a make-up session.
- SEIT is paid on an **enrollment basis**. The agency is paid whether or not the student is present to receive the services. Our agency tracks very closely whether or not SEIT providers are fulfilling each child's mandated weekly services. Whenever possible we encourage SEIT providers to do make-up sessions, in addition, when necessary we hire substitutes to provide make-up sessions. We do our utmost to insure that each student receives the maximum mandate that they are entitled to and for which we are receiving payment. However, we must make sure that no provider exceeds the mandate. Our customized system carefully **tracks the mandated hours** entitled to each child per month as compared to the **actual** hours that the child receives. Periodically, letters are sent to the providers notifying them how many make-up hours remain open for their student.
- This careful tracking of mandated and actual hours, allows us to provide accurate statistics for the **CFR**. A stand alone related services provider has no obligation to submit a CFR and therefore software developed for such an agency would not provide for the gathering of such information.
- In addition our system provides the ability to **run reports** that are requested yearly by New York City i.e. staff roster, and by New York State Department of Education, i.e. PD-6 and SEDCAR. Every year the report is slightly different then the year before. Our system can accommodate these requested changes. A related service provider system does not provide the ability to run such reports.
- Furthermore, as per New York State Regulations 200.16 (f) (2): *"If the IEP includes special education itinerant services and one or more related services, the special education itinerant service provider shall be responsible for the coordination of services."* In New York City, District Administrators expect the SEIT agency to perform the role of **coordination of services**. Therefore if a student receives SEIT services

through our agency and related services through another agency it is our responsibility to track and coordinate those services. Our computer system has a data base of all the related service providers who are providing services to children enrolled in our program. It tracks the submission of progress reports, requests for increase in services, changes in provider and the date of the last IEP. Once again this is not an area that an agency that only provides related services, is charged with, therefore any computer system designed only for a related services agency would not provide the ability to track and coordinate these services.

There is no way that a \$2,084 Related Services software program package or an off-the-shelf \$500 system could provide for all of the above capabilities. Five hundred dollars is the cost of an Excel program. Purchasing an off the shelf system for such complex requirements and reimbursement methodology would not be meeting the usage of available technology and therefore would not be a prudent decision of the usage of government funds. It is equivalent to hiring an incapable employee for a cheaper salary, but the employee then produces an inferior work product.

#### **Comparative Analysis of Available Software for SEIT programs:**

We researched other systems and met with two other companies, we provided the auditors with a written analysis of these meetings and the reasoning behind the decision to use Andrew Blaustein Associates. As we demonstrated in the chart below our system is decreasing in cost every year.

The cost for our software is as follows: \$61,773 the first year (06-07)  
\$41,000 the second year (07-08)  
\$22,000 the third year (08-09)

We anticipate that the cost in 09-10 will be even less than \$22,000.

FISCAL YEAR	ITS DEVELOPED	PACKAGE SOFTWARE RENTAL/YEAR	AVG. ITS DEVELOPED SOFTWARE COST/MONTH	AVG. PACKAGE SOFTWARE RENTAL/MONTH
06 – 07	61,773	36,000	5,147	3,000*
07 – 08	41,000	36,000	3,417	3,000*
08 – 09	22,000	36,000	1,833	3,000*
09 – 10 <sup>1</sup>	20,000	36,000	1,667	3,000*
10 – 11 <sup>1</sup>	20,000	36,000	1,667	3,000*
<b>TOTAL</b>	<b>164,773</b>	<b>180,000</b>	<b>2,746</b>	<b>3,000*</b>

**Table 1: Comparative Analysis**

\* This monthly charge of \$3,000 does not include costs for customized changes which would be necessary to adapt the software to properly provide Integrated Treatment Services with a working system solution. Once these customized changes are made, the cost for monthly rentals would increase significantly (cost for maintaining non-standard software). In addition it is anticipated that base rental fees will increase yearly.

<sup>1</sup> Projected cost

I have attached a copy of a proposal for an off the shelf product, submitted to us by I Central ONE. As you will see, the cost is at a minimum \$2500/month for the life of the contract, this does not include any customization. Customization runs about \$125/hour. Anyone who has ever purchased an off the shelf system for a business, knows that you cannot use it efficiently without customizing it. Once you begin customizing there is no way to predict how high the cost will go.

We researched what computer systems other agencies that provide similar services to ours have.

**Agency 1: Provider Soft.** Provider soft charges \$3,000 per month in perpetuity for the use of their system. The system was designed for Early Intervention and is trying to be adapted for CPSE programs. Agency 1 reviewed the system that we had developed for Integrated Treatment Services and reports that Provider Soft does not nearly meet the capability of our system.

**Agency 2: I-Case Software.** Cost per month ranges between \$2500 and \$4500 per month in perpetuity. We had a demo of this system. The screens are not user friendly. The system was developed based on a medical model, and many customized revisions would have to be made to adapt it to our program.

Neither of the two agencies above owns their software. They purchased packaged software products that do not meet the customized needs of the agencies. If they want to customize the package the company will connect them with a company that on a contracted per hourly rate, will customize the software to their needs.

**Cost reducing benefit:**

Finally, the most important feature of our software is that it has allowed us to **decrease the number of staff** necessary to run the SEIT program. The computer system accurately generates information that previously had to be gathered manually by office workers. Although the initial outlay for the development was expensive ultimately, it is a cost saving investment that is being paid off, by our ability to reduce the number of our employees thereby **reducing costs**.

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Maintenance & Repair:  
**2006-07 Maintenance & Repair \$75,000**

We believe that the project has been misrepresented. A large portion of the work falls under the heading of painting and repairs, which does not necessitate prior approval. The following is a list of the items and the cost associated with them:

- Painting of office space, conference room, kitchenette and toilet area: \$4500
- Replace windows and water proof window area: \$1200
- Three a/c ducts connect to existing system, to include ductwork and electrical work and programmable thermostat: \$3800
- Handrail repair: \$700
- Steel door and installation (as required by NYC fire codes): \$1,400
- Rubbish removal: \$4,000

The above list of repairs amounts to an expense of \$15,600.

The remainder of the work is **not a capital improvement**. We do not own this building. The renovations fall under the heading of **leasehold improvements**.

The Reimbursable Cost Manual defines a capital project as the following on Page 63:

*Capital projects refer to construction, renovation and acquisition of real property for educational purposes, including administrative and ancillary space and facilities used to support educational functions.*

Pursuant to generally accepted accounting principles real property are buildings and land that you own.

The Reimbursable Cost Manual talks about the amortization of leasehold/leasehold improvements on Page 19 (B1):

*Leasehold/Leasehold Improvements - Amortized over the useful life of the improvements or the remaining term of the lease, whichever is shorter. Amortization expense for leaseholds and leasehold improvements will be reimbursable only with the existence of a formal written lease agreement. The term of the lease includes any period for which the lease may be renewed or extended. In the absence of an expressed option, past actions on the part of the lessor and lessee pertaining to renewal will be considered in determining the term of the lease for amortization purposes.*

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\* See State Comptroller's Comments, page 35



Below are listed the *leasehold* improvements and their associated costs:

- Frame and sheetrock for office, kitchenette and bathroom area, to include taping. Provide and install standard interior doors and passage locks: \$17,800
- Dropped ceiling to include grates for lighting: \$4,800
- New electrical wiring, provide and install fluorescent lighting, in office, conference room, kitchenette and toilet areas: \$9,500
- Two conference room doors, hardwood with glass panes; stain and varnish: \$2,200
- Kitchen cabinets, sink, faucets, plumbing, electrical: \$12,500
- Bathroom & sink area: plumbing & installation of 2 toilets, ceramic floor, outside sink (all fixtures and tiles included): \$12,800.

These leasehold improvements are not capital projects and therefore are not subject to prior approval by SED. We operated in a good faith manner and incurred these ordinary, necessary and reasonable expenses to enable us to run our programs. We solicited three bids before beginning these improvements. We operate our business out of the office space; use the conference rooms for staff meetings and training, as well as meetings with NYCDOE officials, parents, etc.

The small kitchen area is plain and simple and used for warming up lunches for the above parties. It is also a place to store food and supplies and have the staff use for lunch to maximize their effectiveness, etc. The need for bathrooms is obvious. All of these expenditures are ordinary, reasonable and certainly necessary. "Do you mean to tell me that the State does not provide office space, conference rooms, small kitchen areas and bathrooms?"

In addition it is important to be aware that the rent we paid in 2006-2007 came to \$20 per square foot which is *under market value*. The market value at that time for office space was \$24 per square foot. In addition because we made these leasehold improvements we were able to negotiate a lease for the next two years, for below \$16 per square foot. In October 2009, because of the leasehold improvements that we made, we were able to negotiate a new lease for \$18.67 per square foot, which is also way below market value. Therefore since we are paying below FMV for rent, these lease hold improvements became our obligation and in the long run will save the State money.

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## PERSONNEL SERVICE COSTS

**Employee Bonus Compensation: \$141,688 (2006-7)**  
**\$196,232 (2007-8)**

Three times a year the executive committee meets to discuss relevant business issues. Minutes of these meetings are kept. Issues such as raises and salary enhancements are discussed at these meetings. Salaries are usually determined in the beginning of the program's fiscal year (July), a contract is written for the amount that is budgeted at that time; this contract does not preclude a salary enhancement or a raise at a later date as the program grows.

The employees in question actually did the Agency a favor by deferring receipt of their appropriate compensation to avoid the Agency from borrowing money and incurring interest charges. Some key employees were hired at under market value salaries, with the understanding that the program was growing and their work load could expect to grow as well, subsequently they would receive raises and or performance based salary enhancements, at a later date. The fact that some of the employees were relatives is irrelevant as they are bona fide employees fulfilling their job responsibilities.

The large increases that they received does not reflect an ordinary bonus, which is only supported by a performance review, but rather establishes retroactively (within the program year) *salaries that had parity with the New York City Department of Education*. Therefore, some key employees began the year with very low salaries, mid- year they received a salary adjustment. Such raises or enhancements were contingent upon performance, availability of funds and appropriateness of the salaries as compared to similar positions in the Department of Education. For example a starting salary for Director of Technologies in District 79 is \$95,000. A starting salary for a Director of Operations (a fiscal position) is also \$95,000. Starting salaries for school secretaries in the Department of Education is about \$32,000. All positions in the Department of Education receive yearly raises.

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## State Comptroller's Comments

1. We never questioned the hiring of family members nor did we state that it was deeply frowned upon by the State Education Department (SED). Our exception related to family relationship as a factor in determining whether a bonus was awarded and the amount of bonus.
2. SED officials advised us that the purchase of customized software is not necessary for program operations. Further, the cost of the customized software was not reasonable when compared to the cost of the commercial off-the-shelf product used by other providers. In addition, Integrated officials claimed that the use of the customized software has allowed them to decrease the number of staff necessary to run the SEIT program. However, when we compared 2006-07 and 2007-08 staffing data, we found no decrease in overall staffing or in the number of administrative staff.
3. SED advised us that Section 47 of the Manual does not apply to consultants who provide SEIT services. Only the travel expenses of "employee" SEIT teachers are reimbursable. SEIT teachers must be in an employer-employee relationship and be issued a FormW-2.
4. We do not cite Section 15E of the Manual as the basis for disallowing travel expenses in our report.
5. Section 57(F) of the Manual is relevant. Travel expenses for non-employees are not reimbursable. Our travel findings were related to consultants - not to family members. According to SED, travel cost should have been factored into the rates paid to the consultants.
6. We disagree; the Manual explicitly states that all expenses must be sufficiently documented. Integrated officials inadequately documented the business usage of their cell phones.
7. The referenced proposal has been removed from the copy of Integrated's response contained in this final report because it contains the confidential proprietary information of a vendor unrelated to this audit.
8. We stand by our conclusion in the report. These "repairs" were performed as part of one construction project and were paid for with one check. Moreover, both leasehold improvements and capital expenditures need to be submitted to the SED for review and comment. ITS acknowledged that they did not receive prior approval (see page 2 of 10 of their response).
9. The employer each had employment contracts. These contracts make no mention of establishing salary parity and we found no supporting documentation to establish that the payments were anything other than bonuses. As the audit points out, we found that the amounts paid were not based on performance criteria and performance ratings. Instead the amounts were determined primarily with management discretion and family relationships appeared to be a factor.