

THOMAS P. DINAPOLI
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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 22, 2015

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

Ms. Diane Leitgeb
Director
Clinical Associates of the Finger Lakes
590 Fisher Station Drive
Victor, NY 14564

Re: Compliance With the Reimbursable Cost
Manual: Clinical Associates of the Finger
Lakes
Report 2014-S-61

Dear Ms. Elia and Ms. Leitgeb:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, Article II, Section 8 of the State Finance Law, and Section 4410-c of the State Education Law, we conducted an audit of the expenses submitted by Clinical Associates of the Finger Lakes (CAFL) to the State Education Department (SED) for purposes of establishing the preschool special education tuition reimbursement rates used to bill public funding sources that are supported by State aid payments.

Background

CAFL, a privately owned institution established in 1995 and located in Victor, New York, is an SED-approved provider of preschool special education services to disabled children. CAFL offers a wide range of services and programs to children with disabilities from birth through age five that include the Preschool Special Education Itinerant Teacher (SEIT) Program, Preschool Evaluation Program, Preschool Related Service Program, One to One Aide Program, and Early Intervention Program. During the 2011-12 school year, CAFL provided special education services to about 233 children with learning disabilities from 33 school districts in 9 counties in Western New York. The SED rate-based program included in our audit scope was the SEIT program.

The counties that use CAFL's special education services pay tuition to CAFL using reimbursement rates set by SED. The State reimburses the counties 59.5 percent of the special education tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by CAFL on its annual Consolidated Fiscal Reports (CFRs) filed with SED. Costs reported on the CFR must comply fully with the guidelines in SED's Reimbursable Cost Manual (RCM) regarding the eligibility of costs and documentation requirements and meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the fiscal year ended June 30, 2012, CAFL reported a total of \$7.6 million in reimbursable costs on its CFR, of which \$1.2 million was for its SEIT program.

Results of Audit

According to SED guidelines, costs reported on the CFR should be reasonable, necessary, directly related to the special education program, and properly documented. For the fiscal year ended June 30, 2012, we identified \$72,401 in costs charged to the SEIT program that did not comply with SED's requirements for reimbursement. The disallowances included \$54,751 in other than personal service (OTPS) costs and \$17,650 in personal service and associated fringe benefit costs that were either non-reimbursable, not reasonable or necessary, not properly documented, or incorrectly reported on the CFR. In certain instances, costs were disallowed previously by SED, and we noted such instances in the report. We also found CAFL has not established formal policies or procedures for some critical business practices and has never performed a formal risk assessment.

Other Than Personal Service Costs

We reviewed CAFL's OTPS costs reported on their 2011-12 CFR and determined the costs did not always comply with the RCM or CFR Manual provisions. Specifically, we found the following:

- We determined CAFL's cost allocation methodology was not fair and reasonable and did not comply with the applicable SED guidelines. For the fiscal year ended June 30, 2012 CAFL directly charged \$58,004 (\$28,525 in building and \$29,479 in certain non-direct administrative costs) to the SEIT program. To allocate building and administrative costs, CAFL used a units of service methodology that suggested 100 percent of SEIT services were provided at CAFL's facility. However, CAFL provided only 8.47 percent of its SEIT services at its facility. (Note: SEIT services are intended to be provided at off-site locations, such as a child's home or day care center.) Consequently, it was not fair nor reasonable to allocate facility costs to the SEIT program as if 100 percent of SEIT services were provided at CAFL's facility. Additionally, CAFL did not comply with the allocation methodology prescribed for claiming administrative costs. Per the RCM, agency administration costs shall be allocated to all programs operated by the entity based on the ratio value method.

To calculate a fair and reasonable allocation of both building and administrative costs, we used a method prescribed by the CFR Manual (i.e., the ratio value method) and determined CAFL overallocated \$45,628 of such costs to the SEIT program.

- CAFL reported vehicle expenses of \$14,557, including depreciation, for a CAFL-owned vehicle. For these costs to be reimbursable, the RCM requires the entity to maintain logs for the vehicle to document the nature and purpose of the travel in order to verify business versus personal usage. At a minimum, the logs should include the date and time of travel, destination, mileage, purpose of travel, and the name of the traveler. CAFL did not maintain any such logs. Consequently, we disallowed vehicle expenses of \$2,429 allocated to the SEIT program.
- CAFL reported \$35,617 in office supply expenses, which included \$610 for donations and \$2,592 for food and gifts. According to the RCM, donations, food provided to staff, and gifts of any kind are not reimbursable. We disallowed non-reimbursable office supply expenses of \$534 allocated to the SEIT program. (Note: Prior to our audit, SED adjusted the amount of office supply expenses for the donations reported by CAFL.)
- CAFL reported \$27,808 for clinical supplies, including certain supplies used for physical and occupational therapy services, which are not reimbursable under the SEIT program. We disallowed \$4,640 for clinical supplies allocated to the SEIT program. (Note: Prior to our audit, SED adjusted the amount of clinical supply expenses reported by CAFL.)
- CAFL reported \$52,312 in professional fees which included legal, auditing, and New York State filing fees. According to the RCM, costs associated with non-audit services provided by a registered public accounting firm are not reimbursable, and those costs that are reimbursable must be reasonable, necessary, and program related. Also, according to the RCM, legal, accounting, or consulting services incurred in connection with the reorganization of the agency, including mergers and acquisitions, unless mandated by SED, are not reimbursable.

We identified the following non-reimbursable items included in the professional fees CAFL reported on their CFR: a \$2,500 credit for CFR preparation fees that was not deducted before those fees were allocated across the programs; invoices that contained non-reimbursable items (costs for personal income tax preparation and non-audit consulting services); an expense accrual error and a discrepancy in the accounting records both resulting in overstated expenses; and legal fees from the potential sale of the business. In total, we disallowed professional fees of \$978 allocated to the SEIT program.

- CAFL reported \$4,770 in telephone expenses for cellular service. Costs incurred for telephone services are reimbursable provided they pertain to the special education program and are properly documented. CAFL claimed cell phone charges for a non-employee and did not sufficiently document certain other cell phone charges. Thus, we disallowed telephone expenses of \$277 allocated to the SEIT program.
- CAFL reported \$7,428 in interest expense paid on their line of credit. CAFL officials explained the loan was used to meet operational expenses during the audit period. The RCM allows reimbursement for working capital interest (interest paid on loans secured for operational expenses) only if documentation supports that conditions exist to warrant the principle amount of the loan. CAFL officials were unable to provide documentation to support the need for the loan. Thus, we disallowed interest expense of \$265 allocated to the SEIT program.

Personal Service Costs

The RCM states costs will be considered for reimbursement provided they are reasonable, necessary, and directly related to the special education program. According to SED, a Teacher's Aide is not a necessary position in a SEIT program. We identified \$15,000 in salary expense claimed on CAFL's CFR for a Teacher's Aide. We disallowed \$17,650, which included the \$15,000 in salary expense as well as \$2,650 in associated fringe benefits. (Note: Prior to our audit, SED adjusted the amount of the Teacher's Aide salary reported by CAFL.)

Inadequate Internal Controls

The RCM requires entities operating SED programs to establish adequate systems of internal controls and to conduct annual risk assessments. An entity's system of internal controls should include documentation of policies and procedures that set forth the framework, methods, and processes employees rely on to do their jobs. We found CAFL officials have not established formal policies or procedures for certain critical business functions. These functions include the compilation of the CFR; the appropriate uses of checks, cash, and credit cards; and review and approval processes for employee time and attendance. In addition, CAFL has never performed a formal risk assessment. The lack of an adequate system of internal controls may have contributed to the ineligible costs CAFL reported on its CFRs and could leave CAFL susceptible to errors in future CFR submissions, if control weaknesses are not adequately addressed.

Recommendations

To SED:

1. Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to CAFL's reimbursement rates.
2. Remind CAFL officials of the pertinent SED guidelines that relate to the deficiencies we identified.

To CAFL:

3. Ensure that costs reported on annual CFRs fully comply with SED's guidelines and requirements.
4. Take action to address the internal control deficiencies identified by this audit.

Audit Scope, Objective, and Methodology

We audited the expenses submitted by CAFL on its CFR for the year ended June 30, 2012. The objective of our audit was to determine whether the costs submitted by CAFL on its CFR were properly calculated, adequately documented, and allowable under SED's guidelines, including the RCM.

To accomplish our objective and assess internal controls related to our objective, we reviewed CAFL's 2011-12 CFR and financial statements. We interviewed CAFL officials and staff to obtain an understanding of their financial practices relating to the expenses reported on CAFL's CFR. We also interviewed SED officials to obtain an understanding of the CFR and the policies and procedures contained in SED's guidelines. To complete our audit work, we reviewed supporting documentation for costs submitted by CAFL on their CFR and made a determination of whether the costs complied with and were allowable by the RCM and CFR Manual.

We conducted our 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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

Reporting Requirements

We provided a draft copy of this report to SED and CAFL officials for their review and formal comment. We considered their comments in preparing this report and have included them in their entirety at the end of it. In their response, SED officials agreed with the audit recommendations and indicated the actions they will take to address them.

CAFL officials disagreed with some of our audit findings. However, officials also indicated they were making certain changes to strengthen internal controls to help ensure enhanced accountability. The changes include formalizing policies to ensure the proper reporting of allowable and unallowable costs as well as the development of a formal risk assessment. Our rejoinders to certain CAFL comments are included in the report's State Comptroller's Comments.

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 where recommendations were not implemented, the reasons why.

Major contributors to this report were David Fleming, Ed Durocher, Laurie Burns, Jennifer Bordoni, Karen Ellis, and Jennifer Habib.

We would like to thank SED and CAFL management and staff for the courtesies and cooperation extended to our auditors during this review.

Sincerely,

Andrea Inman
Audit Director

cc: Andrew Fischler, Audit Manager - Office of Audit Services, SED
Suzanne Bolling, Director of Special Education Fiscal Services, SED

Agency Comments - State Education Department



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY
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July 1, 2015

Ms. Andrea Inman
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street – 11th Floor
Albany, NY 12236

Dear Ms. Inman:

The following is the New York State Education Department's (Department) response to the draft audit report, 2014-S-61, Compliance with the Reimbursable Cost Manual – Clinical Associates of the Finger Lakes (CAFL).

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to CAFL's reimbursement rates.

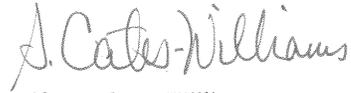
We agree with this recommendation. The Department will review the recommended disallowances as noted in the report and make adjustments to the reported costs to recover any overpayments, as appropriate, by recalculating tuition rates.

Recommendation 2: Remind CAFL officials of the pertinent SED guidelines that relate to the deficiencies we identified.

We agree with this recommendation. The Department will continue to provide technical assistance whenever requested and will strongly recommend that CAFL officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual. In addition, Consolidated Fiscal Report (CFR) training is available at six locations across the State and online on Department's webpage. The training is recommended for all individuals signing CFR certification statements, namely Executive Directors and Certified Public Accountants, and is required for preschool special education providers upon approval and reapproval. Furthermore, the Department intends to require that the training be mandatory for all providers.

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

Sincerely,

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

Sharon Cates-Williams

c: James P. DeLorenzo
Suzanne Bolling

Agency Comments - Clinical Associates of the Finger Lakes



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June 3, 2015

Ms. Andrea Inman
Audit Director
NYS Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: Compliance with the Reimbursable Cost Manual
Clinical Associates of the Finger Lakes Report 2014-S-61

Dear Ms. Inman:

This letter is submitted on behalf of Clinical Associates of the Finger Lakes (CAFL) in response to the above-referenced Draft Audit Report, reviewing the CAFL's CFR for the period July 1, 2011 through June 30, 2012. For the reason which follows, CAFL asserts that the finding of the disallowance of occupancy costs in the amount of \$28,525 charged to the SEIT Program should be removed and there should be significant downward adjustments made to the audit findings, prior to the issuance of a Final Audit Report.

According to finding in the above referenced audit report:

"CAFL cost allocation methodology was not in compliance with the CFR manual, and as a result was not fair and reasonable. According to the CFR manual if the Agency administrative and program offices are located in the same building, property related costs must be allocated among programs using square footage as the statistical basis. SED has further clarified this policy, specifically stating that units of service is not an acceptable cost allocation methodology for SEIT purposes. However, we found that CAFL directly charged \$58,004 in expenses to the SEIT program that were inappropriately allocated (using the units of service methodology) or otherwise were ineligible under SED guidelines."

*
Comment
1



We disagree with this finding as it relates to the building and property related costs, which amounted to \$28,525. As stated in the finding, CAFL's building and property related costs were allocated between Agency Administration and the different SED programs based on units service methodology, which CAFL believes was a reasonable and consistent cost methodology for shared space. It should be noted that this methodology was reviewed and approved by SED in audits of prior years' CFR. In addition, according to CFR Appendix J, for the year ending June 30, 2012, occupancy costs for shared space could be allocated using units of service provided in the shared space. There was no exception listed in Appendix J for the SEIT program. Please see a copy of Appendix J for the year ending June 30, 2012 attached for your review.

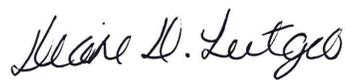
* Comment 2

In subsequent reporting periods to the year ending June 30, 2012, SED determined that it would no longer allow the allocation of occupancy costs based on units of service basis, which for SED providers was added to Appendix J for the year ending June 30, 2013. Based on this modification to Appendix J, CAFL's management will take the necessary action to ensure compliance with the new cost allocation guidelines for subsequent reporting periods.

In addition, the audit report cited CAFL for inadequate internal controls. The report states that CAFL did not have formal policies for certain critical business functions. CAFL Management is in the process of formalizing such policies to ensure all eligible and unallowable costs are properly reported on its CFR. In addition, Management will work with its Independent Accountants to assist in developing a formal risk assessment of the Agency.

Thank you for consideration of our responses. If you should have any further questions, please feel free to contact me.

Very Truly Yours,



Diane D. Leitgeb

Director

New York State Consolidated Fiscal Reporting and Claiming Manual	Subject: Appendix J – Allocating Expenses for Shared Program/Site	Section: 43.0	Page: 43.1
	Reporting Period: July 1, 2011 to June 30, 2012		Issued: 05/12

The following guidelines are to be used only after all attempts have been made to direct charge an expense.

These guidelines are for allocating program costs, **exclusive of agency administration**, when a program serves more than one State Agency, or when more than one program shares the same item of expense. Examples are given utilizing shared staff, capital and general operating costs as the major categories of expense.

Note: Sheltered Workshop programs shared between OMH and OPWDD must use units of service for allocating program costs.

Shared Staff

Actual hours of service is the preferred statistical basis upon which to allocate salaries and fringe benefits for staff which are jointly shared between State agencies, or work at multiple program/sites. Providers must maintain appropriate documentation reflecting the hours used in this allocation. Acceptable documentation may include payroll records or time studies. SED providers should use the data compiled on Schedule SED-4 to report CFR-4 and CFR-4A information for direct care related service staff. (Refer to Appendix L to determine what constitutes an acceptable time study).

Example 1: Allocation based on hours (the preferred method):

Agency XYZ employs a direct care worker who works at two separate community residences. The standard work week for this person is forty (40) hours. Payroll records indicate 25 hours/week are spent at Site A and 15 hours/week at Site B. This person's salary is allocated as follows:

$$\begin{aligned} \text{Site A} & - \$22,400 \text{ (annual salary)} \times (25/40) = \$14,000 \\ \text{Site B} & - \$22,400 \text{ (annual salary)} \times (15/40) = \$ 8,400 \end{aligned}$$

Note: The fringe benefit allocation should use the same methodology.

Example 2: Acceptable time study allocation (if the preferred method cannot be utilized):

Agency XYZ employs a social worker who works at two clinic treatment programs. The social worker must maintain a time study to properly allocate time to the proper program (See Appendix L). His/her actual hours worked were not maintained.

Social Worker salary: \$25,000

Per time study, the social worker spent 20% of his/her time at Site A and 80% at Site B.

$$\begin{aligned} \text{Site A} & - \$25,000 \text{ (annual salary)} \times 20\% = \$ 5,000 \\ \text{Site B} & - \$25,000 \text{ (annual salary)} \times 80\% = \$20,000 \end{aligned}$$

Note: The fringe benefit allocation should use the same methodology.

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	Reporting Period: July 1, 2011 to June 30, 2012		Issued: 05/12

Example 3: Shared workshop allocation:

Agency XYZ operates a sheltered workshop program which is funded by both OMH and OPWDD. They employ a social worker within this program. The provider determines the number of units of service provided during the cost report period by each funding state agency. (OPWDD = 11,250 units, OMH = 3,750 units). This person's salary is allocated as follows:

OPWDD - \$27,000 (annual salary) X (11,250/15,000)
(units/total units) = \$20,250

OMH - \$27,000 (annual salary) X (3,750/15,000)
(units/total units) = \$ 6,750

Note: The fringe benefit allocation should use the same methodology.

Capital and Related Costs

Note: If a particular methodology has been specified in the development of the rate/fee, that methodology must be used.

When programs share the same geographic location or more than one State Agency is served at the same geographic location, property and related costs must be allocated between the programs/State Agencies benefiting from those resources. These costs include expenses such as utilities, repairs and maintenance, depreciation, leases or mortgage interest. The most common method uses square footage as the statistical basis. However, if the use of this method in a specific situation does not result in a fair allocation of the costs, another reasonable method can be used. Square footage cost allocations must be calculated using the following procedure: (square footage should be the interior square footage).

1. Determine the number of square feet which is used exclusively by each program or State Agency, i.e., not shared in common.
2. Determine the number of square feet which is shared in common, i.e., lobby, restrooms, conference areas, etc.
3. Calculate an allocation ratio by dividing each exclusive square footage amount by the total site amount less the commonly shared amount.
4. Multiply each respective cost by the allocation ratios to determine the allocated dollar amount.

Example 1: Square Footage Allocation:

Step 1 -	Exclusive square feet	-	Program A = 500 sq. ft.
	Exclusive square feet	-	Program B = 300 sq. ft.
Step 2 -	Common Square Feet	-	1,000 sq. ft.
	Total Site Square Feet	-	1,800 sq. ft.

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Step 3 - Program A = $500/(1,800-1,000) = .625$
 Program B = $300/(1,800-1,000) = .375$

Step 4 - Utility Expenses = \$5,000
 Program A Allocation = $\$5,000 \times .625 = \$3,125$
 Program B Allocation = $\$5,000 \times .375 = \$1,875$

One reason why the square footage method might not accurately reflect the cost to be allocated to a State Agency/Program would occur when a program uses a significant amount of space, but not much space exclusively. In that case, units of service or staff FTEs might be a better choice as the basis for the allocation. In a case where the shared space is used at different times by different programs (daytime vs. evening, different days) the hours of use might better reflect the benefit to the program and the allocation of the costs.

To expand on the example above, assume program A uses the common area 3 days per week and program B uses the common area 2 days per week:

Step 1 - Exclusive square feet - Program A = 500 sq. ft.
 Exclusive square feet - Program B = 300 sq. ft.

Step 2 - Common Square Feet - 1,000 sq. ft.
 Total Site Square Feet - 1,800 sq. ft.

Step 3 - Program A = $(500 + (3/5 * 1000)) / 1,800 = .61111$
 Program B = $(300 + (2/5 * 1000)) / 1,800 = .38889$

Step 4 - Utility Expenses = \$5,000
 Program A Allocation = $\$5,000 \times .61111 = \$3,056$
 Program B Allocation = $\$5,000 \times .38889 = \$1,944$

Any questions should be referred to the funding state agencies or your accounting professional.

If all space is shared in common, then the allocation ratio should be calculated based upon the full units of service provided in each program or State Agency to the total full units of service provided at the location.

Example 2: Units of Service Allocation:

A workshop program serves both OMH and OPWDD participants. The space used is common to both State agencies. Therefore, the following allocation basis is utilized:

OMH Full Units of Service = 50	$50/150 = .3333$
OPWDD Full Units of Service = 100	$100/150 = .6667$
Total Full Units of Service = 150	$150 = 1.000$
Rent Expense: \$10,000	
OMH = $\$10,000 \times .3333 = \$3,333$	
OPWDD = $\$10,000 \times .6667 = \$6,667$	

New York State Consolidated Fiscal Reporting and Claiming Manual	Subject: Appendix J – Allocating Expenses for Shared Program/Site	Section: 43.0	Page: 43.4
	Reporting Period: July 1, 2011 to June 30, 2012		Issued: 05/12

General Operating Expense

Expenses such as food, transportation, supplies and material, staff travel and training, etc. which cannot be directly charged to a specific program or State Agency must be allocated across all such entities deriving benefits. If you are unable to direct charge expenses to agency administration or program/site(s), you may use the following recommended allocation methods for each specific OTPS item:

OTPS Item	Recommended Allocation Method
Food	Meals Served
Repairs and Maintenance	Square Feet
Utilities	Square Feet
Transportation Related	Number of Trips or Mileage
Staff Travel	Full-Time-Equivalents
Participant Incidentals	Direct Charge Only
Expensed Equipment	Units of Service if the item is shared by more than one State Agency or program site.
Subcontract Raw Materials	Units of Service Only
Participant Wages	Units of Service Only
Staff Development	Full-Time-Equivalents
Supplies and Materials	Units of Service
Telephone	Number of Lines
Insurance-General	Ratio Value
Other	Units of Service

If the recommended allocation method does not apply, the provider should determine a more reasonable method of allocation. Example: A service provider needs to allocate supplies and materials costs to several program/sites. The recommended allocation method noted above is units of service. However, all the program/sites do not report units of service. In this case, a more reasonable method of allocating supplies and materials would be to allocate the cost based on usage.

State Comptroller's Comments

1. We modified our report to clarify the basis for our determination that CAFL's allocation methodology was not fair and reasonable and did not comply with SED's guidelines.
2. In their response, CAFL officials state that units of service was a reasonable method to allocate \$28,525 in building costs. Nevertheless, as stated in the report, CAFL officials charged building costs to the SEIT program based on an allocation methodology that suggested 100 percent of their SEIT services were provided at CAFL's facility. However, CAFL provided only 8.47 percent of its SEIT services at its facility. Consequently, it was not fair or reasonable to allocate facility costs to the SEIT program as if 100 percent of the SEIT service units were provided there. Thus, we maintain that the costs in question were not eligible for reimbursement.