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2155 State Route 22B
Morrisonville, NY 12962-3417
518-562-3847

RECEIVED
Office of the State Comptroller

JUL 3 2008

Lynn Canton
Deputy Comptroller

June 26, 2008

Ms. Lynn Canton
Deputy Controller
Office of the State Comptroller's Division
110 State Street
Albany, NY 12236

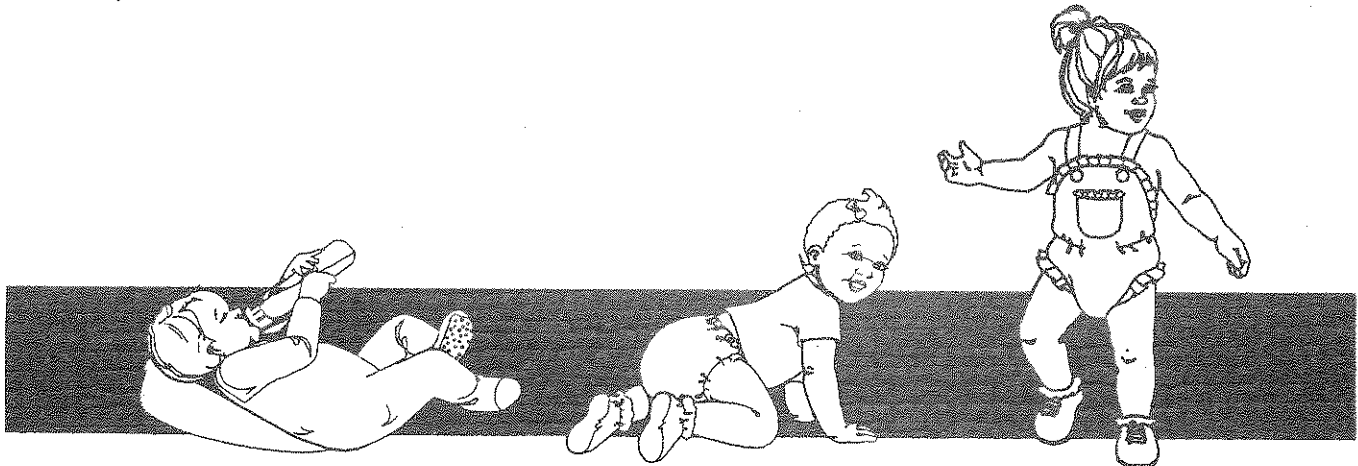
Dear Ms. Canton:

Enclosed please find information to dispute the claims made by the Office of New York State Comptroller, Division of State Government Accountability. Brian Mason was the Audit Manager and Mary Roylance and two other state auditors worked on site September/October 2007 to audit the fiscal school year 05-06 for 4410 state monies.

Pyramids Child Development Center is a 4410 Preschool Special Education Program. We rely on about \$1.8 million of state controlled monies per year to operate preschool special education programs. The NYS Education Department adjusts our rates annually according to allocated expenses as regulated by Consolidation Fiscal Review Manual.

We have enclosed our objections to the disallowances from the final report. We have yet to be officially notified in writing from the Office of the Comptroller that the final report is ready. We were able to go online to access the final report following the dramatic press release in the Press Republican, Plattsburgh, NY, on May 15, 2008.

Each item disputed references the Manual with clear evidence to suggest that the audit team did not follow the Manual guidelines with respect to the final disallowances. Further enclosed is a letter from our payroll office indicating that in the 05-06 school year, there is no record of bonuses for the 05-06 year.



Another matter worth sharing, is two days prior to the dramatic press release, Press Republican, May 15, 2008, Pyramids received a phone call from Brian Mason to inquire as to the status of our ability to remain open until the end of the school year. The call by Mr. Mason seems out of character and random. Was the intent of this audit to see Pyramids shut down leaving the 240 children un-serviced and 104 employees unemployed after June 24, 2008? Brian Mason knows Pyramids is in the middle of a Chapter 11 restructuring process and it was made clear by Pyramids administration that any disallowances would further hurt the program's ability to collect past debt created out of insufficient preschool special education funding.

In closing, the material enclosed was prepared by Marianne Warner, an independent Albany based accountant with experience for completing the 4410 Annual CFR. She successfully completed revisions for our 05-06 CFR. As per a meeting between Pyramids administration and SED program and rate setting, Pyramids learned on June 5, 2008, that we can expect news of revised rates by July 1, 2008. It is our understanding the disputed disallowances however will be subtracted resulting in reconciliations that will not fully reimburse what we were anticipating to help offset debt created out of insufficient preschool special education funding; hence, we believe it is necessary to bring clarity and understanding to the disputed items.

Finally, we are seeking guidance as to what Correction Action Plan we are to submit. We received a letter from SED, enclosed, and when we called to inquire, it was stated that this did not apply to us therefore we have nothing to refer to with regards to creating a corrective plan.

We appreciate your time to look into the matter and look forward to hearing from your office for further clarification.

Sincerely,



Melissa Dorsett-Felicelli
Executive Director
518-562-3847
518-593-8945

cc: Thomas Hamel
Theresa Savo

Encs.

MDF/dr

Report 2007-S-91, Audit Findings and Recommendations:

Under the section Non-Direct Care (Administrative) Costs, Administrative Salary Costs, pages 6 of 28 & 7 of 28 of the report, OSC states that “the records provided to us did not constitute sufficient evidence of *the Executive Director’s presence at Pyramids* or her *Pyramids-related work activities*.” The report goes on to say that “Because there was little evidence that the Executive Director was present at Pyramids and because the Executive Director did not prepare and maintain any time and attendance records” they propose a disallowance to the total compensation of the Executive Director in the amount of \$93,113 regarding the four audited programs.

Pyramids strongly disagrees with this statement as detailed in our response on page 24 of 28. We still disagree after the Comptroller’s Comments. Appendix C - State Comptroller Comments on Auditee Response: (Page 27 of 28)

Comment 6: Regarding *the Executive Director’s presence at Pyramids*

OSC begins this comment with “Pyramids’ statement is not accurate” and yet they go on to acknowledge that the Reimbursable Cost Manual does not reference how often the superintendent (Executive Director) must be physically present at the facility. **Pyramids’ statement is accurate** - there is no basis per the Manual for the disallowance of the salary and benefit costs of the Executive Director based on the auditors’ perceived lack of her physical presence at the facility. We are well into the 21st Century – the Executive Director is able to connect remotely with the Pyramids’ computer server, and be in constant contact with staff by e-mail and phone. She was physically present at Pyramids at least twice a month for the entire 2005/06 school year, and there is nothing in the Manual that requires otherwise.

Comments 6 & 7: Regarding The Executive Director’s *Pyramids-related work activities*

Pyramids acknowledges that the Manual requires that payrolls need to be supported by employee time and attendance records that are prepared contemporaneously for the periods for which the employees are paid. It is true as the audit states, that Pyramids’ administrative staff, including the Executive Director, do not prepare traditional hard-copy time and attendance sheets, as do the hourly employees. However, contemporaneously generated time and attendance records do exist for those employees – including the Executive Director. These records are electronic in nature and available for audit; print-outs were given to the OSC auditors for their review. The dates and activity were present, but the auditors refused to accept them as “sufficient evidence” of the Executive Director’s Pyramids-related work activities. Nowhere does the Manual require traditional manually-recorded hard-copy attendance records – just records that are prepared contemporaneously for the periods for which the employees are paid. **Those records do exist, and were reviewed by the auditors.** The auditors’ reluctance to accept these records seemed to come from their constant overriding opinion that the Executive Director was “rarely on-site at any of Pyramids’ facilities”. They should not have disregarded the records presented for their review because they felt that the Executive Director’s physical presence on site was not adequate – one has nothing to do with the other. Because of the audit, Pyramids has taken a step backwards in time, and now again requires traditional manually-recorded hard-copy attendance records for all employees – a duplication of records and effort requiring more staff time for both employees and the payroll department. The employees are of course cooperating, but the general feeling is “then why do we have the computer system?” That’s a hard one to answer.

Pyramids strongly disagrees with this statement as detailed in our response on page 25 of 28. We still disagree after the Comptroller's Comments.

Appendix C - State Comptroller Comments on Auditee Response: (Page 27 of 28)

Comments 3 & 4: Regarding Wage Accruals *Payment in Question Was Bonuses*

The OSC reports accrued wages of \$86,000 for 14 employees and the actual Pyramids' payroll shows \$79,823 for accrued wages. OSC further disallows the \$15,335.00 for fringe benefits with a total of \$101,335.

The enclosed letter from the Pyramids' payroll office supports *wage increases* not bonuses. **Wage increases are consistent with the Manual.** The OSC audit states the CPA firm explicitly identified accrued wages as bonuses and to date nothing in writing or otherwise has been provided to validate this claim. Wage increases are allowed and are consistent with retention practices. The wages made by the 14 employees sited are consistent with the regional average wage. Further the claim, comment 4, employees were servicing fewer children with fewer units is not supported. The employees for the 12:1:1 model were in fact servicing classroom models with the most amount of children and the most amount of units of service. Individual Education Plan's support this claim made by Pyramids and the OSC audit team never requested to see such documentation.



McCormick & Deon, Accountants

162 Margaret Street
Plattsburgh, NY 12901
(518) 563-9156
FAX (518) 562-3257

TO: MELISSA DORSETT FELICELLI

May 28, 2008

FROM: JOHN DEON

SUBJECT: PAYROLL BONUS CHECKS

Melissa:

With reference to our discussion of a week ago please be advised that I researched whether any of your employees, either Dorsett-Felicelli or the Pre School, were paid a "Bonus" at any time during 2005-2006 or 2006-2007. The answer to that is no they were not. In fact in our Payroll Set Up we don't have a pay category called "Bonus". Further I don't see any type of notation that any employee was paid a "Bonus". Employees are paid their regular salary, by the hour or by the service depending on what they do. I hope this answers your questions.

Sincerely,
John Deon



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

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AND MANAGEMENT SERVICES
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RECEIVED

JUN 02 2008

May 28, 2008

FAXED
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Ms. Melissa Dorsett-Felicelli, Executive Director
Pyramids Child Developmental Center
2155 State Route 22B
Morrisonville, NY 12962-3417

Dear Ms. Dorsett-Felicelli:

On May 15, 2008, the Office of the State Comptroller issued an audit report (2007-S-91) on some aspect of your District's operations. At the next meeting of the Audit Subcommittee of the New York State Board of Regents, the audit will be presented for the Member's information and review.

Pursuant to Section 170.12 of the Regulations of the Commissioner of Education, the District must file with the State Education Department a Board approved corrective action plan within 90 days of the receipt of the report. The corrective action plan should include the expected date of implementation, where appropriate.

The corrective action plan and evidence of Board approval should be sent electronically by August 18, 2008 to:

OAS@mail.nysed.gov

or in paper format to:

New York State Education Department
Office of Audit Services, Room 524 EB
89 Washington Avenue
Albany, NY 12234

If you have any questions, please contact James Conway, Director, Office of Audit Services, at (518) 473-4516.

Sincerely,

Theresa E. Savo

Theresa E. Savo

6/2/08-3:30-Phoned James Conway
on behalf of MPF to ask him to verify
couple things. He asked me to read the
letter to him; I read the 1st sentence + he
said we shouldn't have read this letter, we are not a district.

I told him we have not rec'd a hard copy of the audit. He said to disregard
address to email me the link.

Dawn Reed