



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

Division of State Government Accountability

Compliance With the Reimbursable Cost Manual

State Education Department Alternatives For Children



Report 2017-S-44

April 2018

Executive Summary

Purpose

To determine whether the costs reported by Alternatives For Children (Alternatives) on its Consolidated Fiscal Reports (CFR) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (RCM). The audit covered expenses reported on Alternatives' CFR for the fiscal year ended June 30, 2015, and certain expenses reported on Alternatives' CFRs for the two fiscal years ended June 30, 2014.

Background

Alternatives is an SED-approved, not-for-profit special education provider located in Long Island, New York. Alternatives provides preschool special education services to children with disabilities who are between three and five years of age. Alternatives is reimbursed for preschool special education services through rates set by SED. The reimbursement rates are based on financial information, including costs that Alternatives reports to SED on the annual CFR. To be eligible for reimbursement, reported costs must comply with RCM requirements. For the three fiscal years ended June 30, 2015, Alternatives reported approximately \$25.9 million in reimbursable costs on its CFRs for the five rate-based preschool special education programs (Programs) that it operated.

Key Findings

For the three fiscal years ended June 30, 2015, we identified \$253,494 in ineligible costs that Alternatives reported on its CFRs for the Programs. The ineligible costs included:

- \$130,528 in other than personal service costs, which consisted of \$37,446 in expensed equipment that was not properly capitalized and depreciated; \$35,956 in rent expenses for a location that was no longer being used; \$25,430 in non-audit services that were performed by the same CPA firm Alternatives contracted with for its annual audit; \$21,843 in costs that were not allocated according to the methodologies prescribed in the RCM; \$7,852 in lobbying expenses; and \$2,001 in other non-reimbursable expenses; and
- \$122,966 in salary costs that were improperly charged directly to the Programs. We determined these costs were administrative in nature and should have been allocated across all of Alternatives' programs.

Key Recommendations

To SED:

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

To Alternatives:

- Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.

Other Related Audits/Reports of Interest

[Westchester Community Opportunity Program, Inc.: Compliance With the Reimbursable Cost Manual \(2016-S-33\)](#)

[Hawthorne Foundation, Inc.: Compliance With the Reimbursable Cost Manual \(2017-S-3\)](#)

**State of New York
Office of the State Comptroller**

Division of State Government Accountability

April 5, 2018

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

Dr. Marie Ficano
Executive Director
Alternatives For Children
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East Setauket, NY 11733

Dear Ms. Elia and Dr. Ficano:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the costs submitted by Alternatives For Children to the State Education Department for the purpose of establishing the preschool special education tuition reimbursement rates used to bill public funding sources that are supported by State aid payments, entitled *Compliance With the Reimbursable Cost Manual*. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 4410-c of the State Education Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*

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

Background

Alternatives For Children (Alternatives) is a not-for-profit organization located in Long Island, New York. Alternatives is authorized by the State Education Department (SED) to provide, among other programs, preschool special education services to children with disabilities who are between three and five years of age. During our audit period, Alternatives operated five rate-based preschool special education programs: Preschool Special Class – over 2.5 hours per day; Preschool Special Class – 2.5 hours per day; Preschool Integrated Special Class – over 2.5 hours per day; Preschool Integrated Special Class – 2.5 hours per day; and Preschool Special Education Itinerant Teacher services (collectively referred to as the Programs). The Programs served 508 children with special education needs from Nassau and Suffolk counties. Alternatives is managed by an Executive Director, and is overseen by a Board of Directors.

The counties that use Alternatives' preschool special education services pay tuition to Alternatives using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition paid. SED sets the special education tuition rates based on financial information, including costs, reported by Alternatives on the annual Consolidated Fiscal Report (CFR) that it submits to 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 must meet the reporting requirements prescribed in the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual). For the three fiscal years ended June 30, 2015, Alternatives reported approximately \$25.9 million in reimbursable costs for the Programs on its CFRs.

Audit Findings and Recommendations

According to the RCM, costs reported on the CFR are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and adequately documented. For the three fiscal years ended June 30, 2015, we identified \$253,494 in costs that Alternatives reported on its CFRs that did not comply with SED's requirements for reimbursement. The ineligible costs included \$130,528 in other than personal service (OTPS) costs and \$122,966 in personal service costs.

Other Than Personal Service Costs

For the three fiscal years ended June 30, 2015, we identified \$130,528 in OTPS costs that Alternatives reported on its CFRs that were not allowable under SED's requirements.

Incorrectly Expensed Equipment

According to the RCM, items having a unit cost of \$5,000 or more and an estimated useful life of two years or more must be capitalized. Furthermore, items purchased as a group or separate purchases of similar items in the same fiscal year should be treated as a single-unit purchase. Also, such assets are subject to the straight-line method of depreciation. During the two fiscal years ended June 30, 2015, Alternatives purchased technology equipment, air conditioners, and defibrillators. Each group of purchases exceeded the \$5,000 threshold that requires them to be capitalized. Alternatives reported all of the expenses on its CFRs rather than capitalizing and depreciating the items as required. We calculated the allowable depreciation for the technology equipment, air conditioners, and defibrillators, and determined Alternatives reported excess costs of \$37,446 on its CFRs.

Ineligible Rent Expenses

According to the RCM, SED must approve a program's move to a new location. Additionally, the occupancy costs of a prior location are not reimbursable after the actual date of the program's occupancy in the new location without prior SED approval. In August 2014, Alternatives moved from its location in Melville to a new, larger location in Dix Hills. Alternatives continued to make the remaining payments, between August and December 2014, for the Melville space according to the lease agreement. Although Alternatives received approval from SED for the move, it did not receive approval for the ongoing Melville expenses after the Dix Hills location began operating. Alternatives reported \$35,956 in costs associated with the Melville location for the period when Alternatives did not occupy that space. Consequently, these expenses were not eligible for reimbursement and should not have been included on Alternatives' 2015 CFR.

Non-Audit Services

According to the RCM, costs associated with non-audit services provided by an accounting firm within 365 days of required audit work are not reimbursable. For the three years ended June 30,

2015, we identified \$25,430 in non-reimbursable costs that Alternatives reported on its CFRs for non-audit services that were performed by the same CPA firm that Alternatives contracted with for its annual audits. The ineligible costs consisted of \$20,699 for an information technology (IT) review and associated follow-up and \$4,731 for tax form preparation.

Incorrect Expense Allocation

According to the CFR Manual, when programs share the same location, property, and related costs (e.g., utilities, repairs and maintenance), depreciation, leases, or mortgage interest must be allocated among the programs benefiting from those resources. The CFR Manual cites square footage as the most common allocation method. Alternatives allocated certain costs (e.g., repairs and maintenance, utilities, depreciation, and real estate taxes) at its East Setauket location according to ratios that were based on the square footage assigned to each program. However, we found Alternatives assigned square footage for IT administration, a coordinator's administrative office, a staff lounge, and a kitchen only to certain preschool programs, even though the spaces were not solely related to the preschool programs. As a result of the incorrect space allocation, the preschool programs were assigned a higher share of the costs than they otherwise should have been. For the three fiscal years ended June 30, 2015, we found that Alternatives reported excess costs to the Programs totaling \$21,843.

Lobbying Costs

According to the RCM, costs associated with retainers for legal, accounting, or consulting services are not reimbursable unless the fee represents payment for actual documented reimbursable services rendered, provided the services are not for lobbying efforts. Lobbying activities include, but are not limited to, advocating for legislation and activities associated with obtaining grants, contracts, cooperative agreements, or loans. On its CFRs for the three fiscal years ended June 30, 2015, Alternatives reported ineligible lobbying costs totaling \$7,852 paid to an organization that provides advocacy on behalf of special education providers.

Other Ineligible Costs

According to the RCM, costs will be considered for reimbursement provided such costs are directly related to the special education programs. Additionally, costs that cannot be directly charged to a specific program must be allocated across all entities deriving benefits. We identified \$2,001 in costs that were ineligible for reimbursement because they were not in compliance with these RCM requirements. The ineligible costs included:

- \$1,507 in advertising costs that did not relate to the Programs;
- \$284 in incorrectly allocated payroll processing costs; and
- \$210 in credit card processing fees associated with Alternatives' day care program.

Personal Service Costs

According to the RCM, the salaries of employees who perform tasks for more than one program and/or entity must be allocated among all programs and/or entities for which they work. Further, the RCM defines agency administration as those expenses that are not directly related to a specific program but are attributable to the overall operation of the agency. Alternatives directly charged the salary costs of five office workers to the Programs on its CFRs. However, based on our review of job descriptions for the employees and discussions with Alternatives management, we determined these employees performed general administrative duties rather than duties related to specific programs. For example, one employee whose salary was directly charged to the Programs was responsible for Alternatives' payroll. We concluded the salary costs for these five employees should have been reported as administrative costs on CFR-3 and allocated among all programs. For the three fiscal years ended June 30, 2015, we found that Alternatives reported excess salary costs to the Programs totaling \$122,966.

Recommendations

To SED:

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

To Alternatives:

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.

Audit Scope, Objective, and Methodology

We audited the costs that Alternatives reported on its CFR for the fiscal year ended June 30, 2015 and certain costs reported on its CFRs for the two fiscal years ended June 30, 2014. The objective of our audit was to determine whether the reported costs were allowable, properly calculated, and adequately documented in accordance with applicable SED requirements.

To accomplish our objective, we reviewed the RCMs that applied to the years we examined as well as the CFR Manuals and related appendices. We also evaluated the internal controls over the costs claimed on, and the schedules prepared in support of, the CFRs submitted to SED. We interviewed Alternatives personnel to obtain an understanding of their practices for reporting costs on the CFR. We reviewed Alternatives' CFRs for the three fiscal years ended June 30, 2015 and relevant financial records for the audit period. We obtained accounting records and supporting information

to assess whether certain costs claimed by Alternatives on the CFRs that were considered high risk and reimbursable in limited circumstances (such as equipment, rent expenses, and salary allocations) were properly calculated, adequately documented, and allowable.

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

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. 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 functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Section 4410-c of the State Education Law.

Reporting Requirements

We provided a draft copy of this report to SED and Alternatives officials for their review and formal comment. We considered their comments in preparing this report and have included them at the end of the report (note: we redacted the fees listed in the Accountant's Letter provided in Alternatives' response). In SED's response, officials agreed with the audit recommendations and indicated the actions they will take to address them. In Alternatives' response, officials disagreed with the proposed audit disallowances related to capitalizing certain expenses, rent expenses, and non-audit services. Our rejoinders to Alternatives' 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 if the recommendations were not implemented, the reasons why.

Contributors to This Report

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Vision

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

Mission

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

Exhibit

**Alternatives For Children
Schedule of Submitted and Disallowed Program Costs
For the Three Fiscal Years Ended June 30, 2015**

Program Costs	Amount per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services	\$20,818,796	\$122,966	\$20,695,830	A, B
Other Than Personal Services	5,057,527	130,528	4,926,999	C-H
Total Program Costs	\$25,876,323	\$253,494	\$25,622,829	

Notes to the Exhibit

The following Notes refer to specific sections of the RCM and the CFR Manual that we used as a basis for our recommended disallowances. We summarized the applicable sections to explain the basis for each disallowance. We provided the details supporting our recommended disallowances to SED and Alternatives officials during the course of the audit.

- A. RCM Section III.1.M.1: Any expenditures that cannot be charged directly to a specific program must be allocated across all programs and/or entities benefited by the expenditure. For example: (i) Salaries of employees who perform tasks for more than one program and/or entity must be allocated among all programs and/or entities for which they work.
- B. RCM Section I.9: Agency administration is defined as those expenses which are not directly related to a specific program but are attributable to the overall operation of the agency.
- C. RCM Section II.17.A.1: Items having a unit cost of \$5,000 or more and an estimated useful life of two years or more must be capitalized. Group purchases of similar items (i.e., furniture, small tools, etc.) or separate purchases of similar items in the same fiscal year totaling \$5,000 or more should be treated as a single unit purchase. Effective with the 2009-10 school year, the \$1,000 threshold has changed to \$5,000.
- D. RCM Section II.41.B.1: A move to a new location must be approved by the Department's program staff and such costs of the move are subject to review and approval by the Division of the Budget prior to the program's move. In addition, the program's occupancy costs of the new location are not reimbursable before the actual date of the program's occupancy unless such costs are incorporated in an approved tuition rate. The program's occupancy costs of the prior location are reimbursable up to the actual date of the program's occupancy in the new location unless prior approval allows an exception.
- E. RCM Section II.14.F: Costs associated with non-audit services provided by a registered public accounting firm or any person associated with that firm, during or within 365 days of required audit work (prior to the beginning of the fiscal period being audited or after the date of the audit report issued for the audit period), are not reimbursable.
- F. RCM Section II: Costs are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and sufficiently documented.
- G. RCM Section II.14.B: Costs associated with retainers for legal, accounting, or consulting services are not reimbursable unless the fee represents payment for actual documented reimbursable services rendered, provided the services are not for lobbying efforts.
- H. CFR Manual Appendix J – Capital and Related Costs, Section 43.0: 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.

Agency Comments - State Education Department



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

DEPUTY COMMISSIONER
Office of Performance Improvement and Management Services
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March 5, 2018

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, 2017-S-44, Compliance with the Reimbursable Cost Manual: Alternatives for Children (Alternatives).

Recommendation 1: Review the disallowances identified by our audit and, if warranted, make the necessary adjustments to the costs reported on Alternatives' CFRs and to Alternatives' tuition reimbursement rates

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

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

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the Alternatives officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual (RCM). Furthermore, Consolidated Fiscal Report (CFR) training is available online on SED's webpage. SED recommends that all individuals signing the CFR certification statements, namely Executive Directors and Certified Public Accountants, complete this training. This training is a requirement for preschool special education providers upon approval and reapproval.

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

Yours truly,

Sharon Cates-Williams
Deputy Commissioner

cc: Thalia Melendez
Christopher Suriano
Suzanne Bolling

Agency Comments - Alternatives for Children



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March 7, 2018

Andrea Inman
Office of the State Comptroller
110 State Street, 11th Floor
Albany, New York 12236

**Re: State Education Department
Compliance with the Reimbursable Cost Manual
Alternatives for Children
Draft Report 2017-S-44**

Dear Ms. Inman:

We have reviewed the above-captioned Draft Report concerning the costs submitted by Alternatives for Children (“Alternatives”) on its Consolidated Fiscal Report (CFR) for the fiscal year ending June 30, 2015 and certain expenses reported on CFRs for the two fiscal years ending June 30, 2013 and 2014 and the auditors’ determinations whether such costs and expenses were properly calculated, adequately documented, and allowable under the State Education Department’s (SED) guidelines, including the Reimbursable Cost Manual (RCM). We provide the following comments and challenges to select findings presented in the Report.

Other Than Personal Service Costs

Expensed Equipment

We challenge the auditors’ finding that certain equipment costs associated with air conditioners, defibrillators and technology equipment should have been capitalized.

Air Conditioners

As shared with the auditors, the air conditioning units were purchased through two distinct transactions separated in time and location. The first purchase of 10 units was for the exclusive benefit of the Dix Hills location made on August 8, 2014 in the amount of \$4,200. Several months later, on June 1, 2015, a second purchase of air conditioning units was made, this time for the Southampton location in the amount of \$4,560. The two transactions were unrelated, distinct and segregated -- each purchase decision being made based upon a unique set of circumstances as the need was identified.

We challenge the auditors’ application of the RCM capitalization rules where, as here, the two purchase transactions were separately formulated, separately identified and separately

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Comment
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* See State Comptroller's Comments, page 27.

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executed -- each falling clearly beneath the RCM \$5,000 monetary threshold for capitalization. We do not read the RCM to require the aggregation of such separate transactions, as the auditors assert. We believe that the auditors' reading of the RCM provisions is overbroad and ignores the realities of multiple purchases through the course of a given year. We believe SED would concur that the directive of the RCM distinguishing capitalization from depreciation contemplated a single purchase of multiple items and not, as present here, multiple purchases of a like item.

Defibrillators

We also challenge the auditors' analysis of the nature of the purchase of three defibrillators. As with the air conditioner units, the defibrillators were purchased through multiple transactions separated in time and location. Each of these distinct transactions was below the requested monetary threshold for capitalization. In addition, while the defibrillator unit itself may qualify for capitalization consideration, we believe the auditors may have mistakenly included consumable items within its equipment cost calculation. As shared with the auditors, the defibrillator unit is separate from the consumable pads which must be replaced at specified intervals as directed by the unit manual. The costs of these consumable products, then, are outside the calculation of capitalized costs. Similarly, costs associated with the defibrillator equipment carrying cases should be removed from the same calculation and recognized as not subject to capitalization. Properly adjusted, the total cost of the equipment potentially subject to capitalization is \$4,508.16 – clearly less than the \$5,000 capitalization monetary threshold.

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IPADS

We challenge the auditors' categorization of student used IPADS as equipment to be capitalized. The IPADS were purchased and expensed as instructional expenses of specific classrooms and for the exclusive use of staff and students in the classrooms. It was Alternatives' reasoned expectation that the IPADS' usefulness and functionality would expire within two years - - the threshold for capitalization. Accordingly, Alternatives did not apply the capitalization approach suggested by the auditors since the devices/equipment did not satisfy the requirements for capitalization. The period of probable usefulness of a student used IPADS is far less than the standard PPU of an IPAD especially where, as here, that student is a preschool student with a disability. Capitalization of such instructional equipment would be inappropriate and counter-productive.

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Furthermore, the IPADS were purchased through separate transactions and not in bulk as capitalization would contemplate. Each transaction fell well below the requisite \$5,000 monetary threshold for capitalization.

Each IPAD was inventoried and assigned to a specific classroom for the exclusive use by the students of that classroom, testament to its characterization as classroom instructional material and not equipment subject to capitalization.

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Projectors

We likewise challenge the auditors' determination that classroom projectors should be subject to equipment capitalization requirements. Alternatives categorized the costs associated with the classroom projectors as classroom purchase costs and not equipment to be capitalized because the purchases were specific to certain classrooms, exclusively, and not made for the general benefit of the agency as would standard capitalized equipment.

* Comment 4

A similar analysis led to the reporting of certain multiple sets **Smartboard** costs as classroom purchases for the exclusive benefit of specifically identified classrooms, rather than agency wide equipment which could be capitalized. Similarly, **Thin Clients** were purchased for specific staff members as an alternative to traditional desk top computers and were used exclusively by those specific staff members. Alternatives categorized these costs as classroom purchases and not general agency equipment which would be capitalized.

Costs associated with the **Server**, much like the costs associated with the air conditioners and defibrillators, were incurred at separate intervals and for the benefit of a specific site.

For all the reasons set out above, Alternatives challenges the proposed disallowance (\$37,446) associated with each of the purchases.

We do, however, acknowledge and appreciate the auditors' favorable consideration of our request for an adjustment to reflect the allowable reporting of depreciation.

Rent Expenses

Alternatives recognizes that the RCM cautions against the reporting of simultaneous occupancy cost as a general rule without prior approval by NYSED. However, the circumstances of the Melville site lease argue against the proposed disallowance.

As shared with the auditors, Alternatives' program expansion demanded access to additional space beyond the premises leased by St. Elizabeth's Church. When St. Elizabeth was unable to provide additional space, Alternatives was forced to consider relocation. After months of effort, Alternatives identified certain premises at Chestnut Hill Elementary School as a potential relocation site, and apprised the NYSED Regional Associate of its search and result. The Regional Advisor advised Alternatives to submit the requested Preschool Modification Application to initiate the relocation process. The Application packet was submitted on March 10, 2014 and NYSED Program Office conducted its field visit soon thereafter. NYSED's Rate Setting fiscal team also reviewed the Application packet and was advised by Alternatives that the costs associated with this new lease would not require any enhancement of the existing reimbursement rate. On May 6, 2014, representatives of the Rate Setting Unit requested Alternatives provide a detailed analysis of the current and expected lease related costs, together with an itemized accounting of costs captured in one lease, but not the other. An analysis of all

Andrea Inman
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associated costs, *including the costs which would remain under the old lease while the school was under a new site lease*, was submitted on May 20. On June 25th, Alternatives formally notified St. Elizabeth's Church of its intention to terminate the Melville lease, upon 6 months' notice as required by terms of the lease.

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While Alternatives worked tirelessly to obtain the necessary operational permits and approvals by both NYSED and OCFS in anticipation of a September opening at the new location, various delays prevented the complete relocation of its operations to the new site until December, effectively requiring contemporaneous operations, in part, at both the Melville and the Half Hollow locations. Accordingly, Alternatives was compelled to "occupy" both sites, in part, simultaneously – the associated costs of which were shared with NYSED during the Relocation Review Process.

We must, then, challenge the auditors' determination that the necessity of multiple site occupancies was not approved by NSYED where, as here, the details of the arrangement were clearly shared with NYSED fiscal Staff and as clearly, approved upon approval of the relocation. We respectfully request the auditor's reconsider the proposed disallowance, accordingly.

Non-Audit Services

Alternatives challenges the auditors' construction of the RCM provision that costs associated with non-audit services provided by an accounting firm during or within 365 days of required audit work are not reimbursable.

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We do not believe the services provided Alternatives by a separate unit within the accounting firm are of the nature of the services contemplated by the RCM. More specifically, the services were singularly unrelated to accounting or accounting consultation. Rather, the services were of an information technology assessment nature. Point of fact, the expert consultant services enabled Alternatives to develop a comprehensive RFP for the procurement of IT services, in full compliance of applicable procurement requirements. (See: Attachment: Accountant's Letter)

Expenses associated with required filings such as the IRS990, are necessary expenses incidental to Alternative's operations which are clearly reasonable, necessary and cost-effective as required by the RCM.

In addition, neither of these specific expenses are listed in the RCM as non-allowable non-audit expenses, and must therefore be reinstated as allowable costs properly incurred and properly reported.

As importantly, the RCM identifies as potentially non-allowable "any other service that the Board of the provider does not approve..." As the audit team is aware, the transactions in question were fully reviewed and approved by the Board, attesting to their legitimacy and cost-effectiveness.

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Expense Allocation

Alternatives does not challenge the auditors' determination that certain square footage allocations were calculated in error.

Lobbying Costs

Alternatives does not challenge the auditors' determination that certain fees associated with lobbying activities were inadvertently reported as reimbursable expenses. We have strengthened our internal controls to guard against such mischaracterizations moving forward.

Other Ineligible Costs

Advertising

Alternatives does not challenge the auditors' characterization of advertising materials as "not related to (the educational) Programs" acknowledging that some aspects of some of the advertisement materials may have been presented more generally than intended. We appreciate the favorable consideration of our challenge that the cost of personnel recruitment advertisements for Day Care Teachers and classroom clinical staff should be disallowed only to the extent of the Day Care Teacher since the recruitment costs for Program clinicians are clearly Program related and allowable.

Payroll Processing Costs

Alternatives does not challenge the auditors' determination that certain calculation errors resulted in an inaccurate allocation of specific payroll fees in the amount of \$284.

Credit Card Processing Fees

Alternatives likewise does not challenge the auditors' determination that \$210 in credit card processing fees was inadvertently allocated to Program.

Personal Service Costs

Alternatives does not challenge the auditors' finding that the salaries of select employees who performed certain administrative duties would have been more accurately reported as general administration salary costs rather than program costs, as reported, given the general agency-wide nature of the tasks performed.

We acknowledge and appreciate the auditors' correction of the calculation formula as we had requested.

Andrea Inman
March 7, 2018
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We appreciate the auditors' consideration of the challenges presented herein.

Very truly yours,

GREENBERG TRAUIG, LLP

A handwritten signature in blue ink, appearing to read "Pamela A. Maderros". The signature is stylized and overlaps the text "GREENBERG TRAUIG, LLP" and "Pamela A. Maderros".

Pamela A. Maderros

PAM/hae
ALB 2095445v3

cc: Suzanne Bolling, NYSED
Thalia Melendez, NYSED
Marie Ficano, Alternatives
Brian Krawiecki, OSC

ATTACHMENT: Accountant's Letter



Baker Tilly Virchow Krause, LLP
 125 Baylis Road
 Melville, NY 11747-3823
 631 752 7400
 bakertilly.com

February 26, 2014

Dr. Marie E. Ficano
 Executive Director
 Alternatives for Children
 14 Research Way
 East Setauket, NY 11733

RE: Information Technology Assessment Engagement Letter

Dear Dr. Ficano:

This letter will serve to confirm our understanding and agreement relating to the Information Technology Assessment (the "Assessment") that Baker Tilly Virchow Krause, LLP ("Baker Tilly", "we", "us" or "our"), will perform for Alternatives for Children (the "Client").

The purpose of the Assessment is to review the policies, procedures, practices, and controls surrounding the Client's IT functions. We will evaluate the design and effectiveness of certain procedures and practices for those IT functions. At the conclusion of the Assessment, Baker Tilly will prepare a final deliverable as outlined below.

Specifically, we will undertake the following approach:

- Conduct interviews and working sessions with Client personnel in IT, Finance, and Quality during three days of on-site fieldwork
- Review documentation related to the management of IT including budgets, contracts, and system configurations
- Perform walk-throughs of key applications with Finance and Quality personnel
- Analyze information gathered via documentation review and interviews
- Develop draft observation and recommendations
- Validate draft observations and recommendations with IT, Finance, and Quality
- Deliver final report to the Executive Director

We will work with you to tailor the format and content of the deliverable at the onset of the engagement. We typically summarize the work that we performed and the results of our assessment in a report, key components of which may include:

- Project overview
- Key strengths
- Summary of recommendations
- Description of actionable, prioritized recommendations to improve IT processes and practices within the next six months
- Description of long-term recommendations for IT strategic plans to meet the Client's mission and increase the maturity of IT processes

Our team is prepared to begin work upon execution of this agreement and will continue until the scope of work is complete.



Dr. Marie E. Ficano
 Executive Director
 Alternatives for Children

February 26, 2014
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Our estimated fees for this engagement are [REDACTED]. Fees for our services are based on the amount of time expended at our discounted hourly billing rates (see below), plus travel time, and any out-of-pocket expenses. Our invoices for these fees will be rendered as work progresses and are payable in accordance with the terms in our Standard Business Terms attached hereto.

The fee is based on the following general engagement assumptions:

- Three days of on-site fieldwork will be performed at the Client's office in East Setauket, NY.
- Eight to ten days of analysis and reporting time completed remotely
- The Client will provide Internet access to the Baker Tilly on-site team
- The Client will provide an assigned point of contact to Baker Tilly who will coordinate engagement activities, including document requests and meeting scheduling
- All required information and personnel necessary for engagement objectives to be achieved will be available to Baker Tilly in a timely manner
- Two meetings will be held to obtain feedback on draft recommendations and deliverables
- We will provide one draft report and one final report

If additional work related to this effort is requested beyond the scope and timeline in this agreement, Baker Tilly's fees will be based upon actual time incurred at the hourly rates set forth below and invoiced on a monthly basis:

<u>Consultant Level</u>	<u>Discounted Hourly Rate</u>
Partner	[REDACTED]
Director / Senior Manager	[REDACTED]
Manager	[REDACTED]
Senior	[REDACTED]
Staff	[REDACTED]

In the event that the Client's objectives change or agreed-upon general engagement assumptions cannot be achieved, the parties will reconsider the project approach and mutually agree on any modifications to the project scope, approach, timing, or costs before proceeding.

Effective for all services rendered after January 1, 2005, the AICPA Code of Conduct requires accountants to maintain specific documentation of responsibilities in relation to non-attest services performed for attest clients (audit, review, compilation and agreed upon procedure engagements). Accordingly, the following paragraph serves to document that understanding of responsibility for non-attest services required under the new standard, and thus preserves our independence in completing our attest services.

For the non-attest services for which we have currently been engaged, including this Assessment, or any future non-attest services for which we may be engaged, you understand and acknowledge that you are responsible for the Client's management functions covering all matters related to these services and related decisions and representations. You are responsible for evaluating the adequacy of the services performed and accepting responsibility for the results, and designating an employee with suitable skill, knowledge and/or experience, preferably within senior management, to oversee the services we perform. You are also responsible for establishing and maintaining all internal controls, including those related to the monitoring of ongoing, related activities.

Dr. Marie E. Ficano
Executive Director
Alternatives for Children

February 26, 2014
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This engagement letter, together with the Standard Business Terms attached hereto, constitutes the entire agreement between the Client and Baker Tilly with respect to this engagement, supersedes all other oral and written representations, understandings, or agreements relating to this engagement, and may not be amended except by the mutual written agreement of the Client and Baker Tilly.

Please indicate your acceptance of this agreement by signing in the space provided below and returning this engagement letter to us.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause, LLP

ALTERNATIVES FOR CHILDREN

Marie E. Ficano

Signature

EXECUTIVE DIRECTOR

Title

2/26/14

Date



Baker Tilly Virchow Krause, LLP
 125 Baylis Road
 Melville, NY 11747-3823
 631 752 7400
 bakertilly.com

October 31, 2014

Dr. Marie E. Ficano
 Executive Director
 Alternatives for Children
 14 Research Way
 East Setauket, NY 11733

RE: Information Technology Recommendations Follow-up Project Engagement Letter

Dear Dr. Ficano:

This letter will serve to confirm our understanding and agreement relating to the Information Technology Recommendations Follow-up Project (the "Project") that Baker Tilly Virchow Krause, LLP ("Baker Tilly", "we", "us" or "our"), will perform for Alternatives for Children (the "Client").

The purpose of the Project is to advise management on its action plan to address the recommendations made by Baker Tilly during the previous IT assessment and monitor the progress of action plan tasks.

Specifically, we will undertake the following approach:

- Review management's current action plan to address the Baker Tilly IT assessment short term recommendations and provide feedback on tasks and timelines
- Assist management with the development of an action plan to address the Baker Tilly IT assessment long term recommendations, as necessary
- Provide guidance to management on technical questions related to system configurations and , as necessary
- Periodically monitor progress of the action plan tasks for the short term recommendations, provide feedback on progress and note any challenges meeting tasks, and report on timing
- Deliver bi-weekly (i.e., once every two weeks) status reports to the Executive Director

Our team is prepared to begin work upon execution of this agreement.

Our estimated fees for this engagement are [REDACTED] [REDACTED]. Fees for our services are based on the amount of time expended at our discounted hourly billing rates (see below), plus travel time, and any out-of-pocket expenses. Our invoices for these fees will be rendered as work progresses and are payable in accordance with the terms in our Standard Business Terms attached hereto.

The fee is based on the following general engagement assumptions:

- Fieldwork will be performed remotely from Baker Tilly offices
- No more than two on-sites visits to Alternatives' office in East Setauket, NY
- The Client will provide an assigned point of contact to Baker Tilly who will coordinate engagement activities, including document requests and meeting scheduling
- All required information and personnel necessary for engagement objectives to be achieved will be available to Baker Tilly in a timely manner
- Status reports will be delivered via email
- Baker Tilly's work will continue until December 19, 2014 (the anticipated date for the completion of management's action plan for short term recommendations)



Dr. Marie E. Ficano
Executive Director
Alternatives for Children

October 31, 2014
Page 2

If additional work related to this effort is requested beyond the scope and timeline in this agreement, Baker Tilly's fees will be based upon actual time incurred at the hourly rates set forth below and invoiced on a monthly basis:

<u>Consultant Level</u>	<u>Discounted Hourly Rate</u>
Partner	
Director / Senior Manager	
Manager	
Senior	
Staff	

In the event that the Client's objectives change or agreed-upon general engagement assumptions cannot be achieved, the parties will reconsider the project approach and mutually agree on any modifications to the project scope, approach, timing, or costs before proceeding.

Effective for all services rendered after January 1, 2005, the AICPA Code of Conduct requires accountants to maintain specific documentation of responsibilities in relation to non-attest services performed for attest clients (audit, review, compilation and agreed upon procedure engagements). Accordingly, the following paragraph serves to document that understanding of responsibility for non-attest services required under the new standard, and thus preserves our independence in completing our attest services.

For the non-attest services for which we have currently been engaged, including this Project, or any future non-attest services for which we may be engaged, you understand and acknowledge that you are responsible for the Client's management functions covering all matters related to these services and related decisions and representations. You are responsible for evaluating the adequacy of the services performed and accepting responsibility for the results. You are also responsible for establishing and maintaining all internal controls, including those related to the monitoring of ongoing, related activities.

This engagement letter, together with the Standard Business Terms attached hereto, constitutes the entire agreement between the Client and Baker Tilly with respect to this engagement, supersedes all other oral and written representations, understandings, or agreements relating to this engagement, and may not be amended except by the mutual written agreement of the Client and Baker Tilly.

Please indicate your acceptance of this agreement by signing in the space provided below and returning this engagement letter to us.

Sincerely,

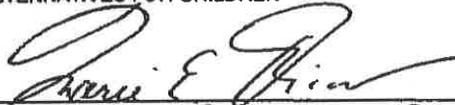
BAKER TILLY VIRCHOW KRAUSE, LLP



Dr. Marie E. Ficano
Executive Director
Alternatives for Children

October 31, 2014
Page 3

ALTERNATIVES FOR CHILDREN



Signature Marie E. Ficano, Ed.D.

EXECUTIVE DIRECTOR
Title

11/7/14
Date

State Comptroller's Comments

1. According to the RCM, purchases of similar equipment items in the same fiscal year that total \$5,000 or more and which have an estimated useful life of two years or more must be capitalized. (Specifically, the RCM states items with a unit cost of \$5,000 or more and an estimated useful life of two years or more must be capitalized; further, separate or group purchases of similar items in the same fiscal year totaling \$5,000 or more should be treated as a single purchase.) Alternatives acknowledged in its response that two separate purchases of air conditioning units, which together totaled more than \$5,000, were made during the 2014-2015 fiscal year. Alternatives contends that these two purchases were unrelated, distinct, and segregated and that each purchase was below the \$5,000 threshold for capitalization. We disagree as there is no provision in the RCM to treat purchases of this nature in the way that Alternatives is suggesting. We maintain that the cost of the air conditioners should have been capitalized according to the RCM requirements, and as a result of not doing so, excess costs were included on the CFR.
2. The same RCM provisions cited in Comment 1 above regarding purchases in excess of \$5,000 are also applicable to Alternatives' purchases of defibrillators. Alternatives acknowledged in its response that the defibrillators were purchased through multiple transactions. Further, according to the supporting documentation reviewed during the audit, Alternatives purchased defibrillators as single packaged items. The documentation did not reflect separate, itemized costs for the various defibrillator parts. Therefore, we maintain that the cost of the defibrillators should have been capitalized according to the RCM requirements, and as a result of not doing so, excess costs were included on the CFR.
3. The RCM provisions cited in Comment 1 above regarding capitalization also apply to Alternatives' purchases of iPads. Alternatives acknowledged in its response that the iPads were purchased through separate transactions, but claimed the iPads had a useful life of less than two years. However, according to tables published by the Internal Revenue Service, the useful life for computer equipment exceeds two years. Therefore, we maintain that the cost of the iPads should have been capitalized according to the RCM requirements, and as a result of not doing so, excess costs were included on the CFR.
4. The RCM provisions cited in Comment 1 above regarding capitalization are also applicable to Alternatives' purchases of projectors, smartboards, thin clients, and servers. Further, the RCM does not identify where, how, or by whom the equipment is used as a basis for whether it should be capitalized or not for CFR reporting purposes. Consequently, we maintain that the cost of the information technology equipment should have been capitalized according to the RCM requirements, and as a result of not doing so, excess costs were included on the CFR.
5. The RCM states that a program's occupancy costs of a prior location are reimbursable up to the actual date of occupancy in the new location, unless there is prior SED approval. The information provided to SED on May 20, 2014, referenced in Alternatives' response, described each location, and stated the reasons for the move and the overall lease costs of each lease for comparative purposes. There is no information indicating that the lease periods would overlap, nor is there an identification of or request for approval of the costs associated with the overlapping period. Therefore, we maintain that, without the

required prior approval, the rent costs of \$35,956 for the Melville location are ineligible for reimbursement.

6. According to the RCM, costs associated with non-audit services provided by a registered public accounting firm, or any person associated with that firm, during or within 365 days of required audit work are not reimbursable. This includes expert services unrelated to the audit. We maintain that the non-audit services costs of \$25,430 (for information technology review and tax services provided by Alternatives' accounting firm) are ineligible for reimbursement under the RCM requirements because the services were performed within 365 days of the accounting firm's audit work at Alternatives.