

August 22, 2012

Mr. Frank Patrone
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Dear Mr. Patrone:

The following is the Special Education Associates, Inc. (SEA) response to the two recommendations (#3 and #4) made to SEA and contained in the Office of the State Comptroller's Audit Report (2010-S-31) of SEA: Compliance with the Reimbursable Cost Manual.

In response to these two recommendations (#3 and #4) in general and the fraudulent activities of SEA's former Owner/Executive Director (ED) and Owner/Assistant Executive Director (AED) in particular, SEA agrees with the recommendations and is pleased to report that on April 1, 2012 the company was transferred to the ownership and leadership of Mr. Martin Handler. Mr. Handler, until that time, was the Executive Director of Project Social Care Head Start, Inc. (PSCHS) a federal Head Start Program. Mr. Handler had been hired at PSCHS in December, 2010 in order to rehabilitate a program which was deficient in all areas. Mr. Handler was charged with the mission of bringing the program into regulatory compliance. Upon arrival, Mr. Handler changed out personnel and the entire corporate structure to ensure compliance with all requirements and regulations. Working with officials and regulators, Mr. Handler, with their input developed, implemented, and enforced extensive rules and policies to ensure PSCHS would be a completely transparent operation, and that all applicable Federal, State and local laws and regulations would be strictly adhered to. When Mr. Handler was approached about taking over SEA, it was his experience in a similar setting that allowed him to immediately effect a positive change in another difficult setting and thereby ensuring the issues which occurred in the previous administration would not happen again.

Recommendation to SEA #3: Comply with the Reimbursable Cost Manual's requirements for eligibility and documentation of all reported program costs.

In response to this audit finding that \$60,857 in non-reimbursable costs were identified, SEA has replaced the Executive Director, the Assistant Executive Director, its accountant and its certifying CPA as each of these persons contributed to the misrepresentations, misclassifications and improper documentation of the disallowed direct and indirect program costs which follow:

Personal Service Direct Costs

Full-Time Cost Reimbursement for less than Full Time Work: In response to this audit finding, SEA's new management recognizes that personal service costs associated with the provision of services to students with disabilities must be determined on a Full-Time Equivalent basis, in accordance with the Regulations of the Commissioner of Education, to assure accountability. New procedures and policies have been implemented to ensure that personnel who provide services in more than one area properly prorate the FTE for each area so the total FTE reflects

reflects their actual FTE employment. In addition, SEA has also developed a new electronic timekeeping system to ensure that billable hours are documented, reviewed by appropriate supervisory personnel and allocated appropriately for all employees and independent contractors.

Cost of Salaries for Minors either Employed Without Work Papers and/or misclassified as Independent Contractors: In response to this finding, SEA has set up a small HR department which now properly screens all job applicants, including summer hires, to ensure full compliance with New York State Labor Laws, proper documentation is acquired, and new hires are correctly classified in accordance with the RCM. (See attached SEA Policy Manual Page 9.)

Cost of Gifts for Students: In response to this finding, SEA has established policies prohibiting the giving of gifts for any reason (birthday, holiday, graduation, etc.) especially to students in accordance with the RCM. (See attached SEA Policy Manual Page 17.)

Other Than Personal Service Costs

Cost of Leased Vehicles: In response to this audit finding, SEA no longer allows long term vehicle leases to be established by any SEA employee, including senior management personnel. In addition, SEA has revised its policies and procedures regarding reimbursement for automobile expenses whereby SEA has given Vehicle Logs to authorized employees using personal cars for official business travel indicating the dates of travel, destination, purpose, and mileage so that expenses can be properly documented and reimbursed at rates allowed by the IRS. SEA has further contracted with a car service company to provide authorized employees transportation as needed for official and necessary business purposes. (See attached SEA Policy Manual Page 15.)

Cost of Food for Employees: In response to this audit finding, SEA has limited reimbursement of employee food costs to SEIT program personnel and then only if such costs are related to an approved IEP instructional requirement as authorized by the RCM.

Other Expenses Paid to the Former AED: In response to this audit finding, SEA no longer permits reimbursement of "other business expenses" unless the person is either an independent contractor, where such expenses are allowed according to the independent contractor's agreement, or a full time employee where, in both cases, the expense is reasonable, necessary and for business/educational purposes, properly documented and allowed as a reimbursable expense by the RCM.

In response to these specific audit findings and to eliminate potential fraudulent, misguided or ignorant behavior in the reporting of reimbursable costs on the CFR, SEA has made appropriate personnel changes aimed at reinforcing the personal and fiscal integrity of the company and the way it operates. For example, SEA has published a new company Policy Manual, Employee Handbook and has rewritten all employee Job Descriptions so that policies and procedures, as required by the NYC DOE, NY SED and the Rules and Regulations of the Commissioner, are known, followed and enforced.

SEA has also hired, assigned or retained a new team of professionals to oversee the operations of the company. If a situation should arise where activities might be called into question, a new Compliance Officer has been appointed who will immediately investigate the situation and report any improper acts to corporate officials and/or the appropriate authorities.

A new accountant, knowledgeable in the RSU's Reimbursable Cost Manual (RCM) and preparation of the CFR, has been hired and put in charge of properly allocating expenses in accordance with the latest RCM.

SEA's internal fiscal staff has also been trained on the RCM and CFR including accessing available CFR training sponsored by NYSED RSU. SEA's staff will also follow recent NYSED RSU directives and communicate directly with the RSU staff regarding any clarifications of the RCM or CFR.

Recommendation to SEA #4: Ensure that the CPA who prepares the certified financial statements and the CFR, is registered with the Office of Professions.

In response to this audit finding, SEA has hired a new CPA to prepare its certified financial statements and its CFR. Attached is documentation evidencing that CPA Abe Schwartz is certified and registered with the Office of Professions as required.

If you have any questions regarding this response, please contact Martin Handler, SEA's Owner/Chief Executive Officer, at (718) 376-5510.

Sincerely,



Martin Handler,
CEO

C: Pamela Madeiros