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
Volunteers of America – Greater New York, Inc.

Report 2017-S-32 December 2018

Executive Summary

Purpose

To determine whether the costs reported by Volunteers of America – Greater New York, Inc. (VOA-GNY) on its Consolidated Fiscal Reports (CFRs) were reasonable, necessary, directly related to the special education program, and sufficiently documented pursuant to the State Education Department's (SED) Reimbursable Cost Manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual. The audit focused primarily on expenses claimed on VOA-GNY's CFR for the fiscal year ended June 30, 2015 and certain expenses claimed on its CFRs for the two fiscal years ended June 30, 2014.

Background

VOA-GNY is a New York City-based not-for-profit organization authorized by SED to provide preschool special education services to children with disabilities who are between the ages of three and five years. During our audit period, VOA-GNY operated Special Education Itinerant Teacher, full-day Special Class, and full-day Special Class in an Integrated Setting programs. For purposes of this report, these programs are referred to as the SED preschool cost-based programs. VOA-GNY also operated two other SED-approved preschool programs: Evaluations and 1:1 Aides. Payments for services under these programs are based on fixed fees. In addition, VOA-GNY operated programs authorized by the Office of Alcoholism and Substance Abuse Services, Office of Mental Health, Office for People With Developmental Disabilities, and other social service programs.

During the period July 1, 2012 through June 30, 2015, VOA-GNY served an average of 443 preschool special education students in its cost-based programs each year. The New York City Department of Education (DoE) refers students to VOA-GNY and pays for its services using rates established by SED. The rates are based on the financial information that VOA-GNY reports to SED on its annual CFRs. The DoE is reimbursed by SED for a portion of its payments to VOA-GNY. For the three fiscal years ended June 30, 2015, VOA-GNY reported approximately $38.2 million in reimbursable costs for its SED cost-based preschool special education programs.

Key Findings

For the three fiscal years ended June 30, 2015, we identified $1,557,827 in reported costs that did not comply with the RCM's requirements, as follows:

- $541,775 in non-program compensation paid to 38 individuals who did not work in VOA-GNY's SED preschool cost-based programs. These individuals provided services to other VOA-GNY programs and an SED fixed-fee program.
- $340,663 in insufficiently documented parent agency administrative allocation costs.
- $257,536 in non-program other than personal service expenses.
- $144,148 in consultant costs that were undocumented, insufficiently documented, and/or were not related to the preschool cost-based programs.
- $114,502 in over-allocated compensation costs.
- $85,572 in executive compensation that was above the median compensation levels.

- $73,631 in expenses that were not eligible for reimbursement, including $40,718 in ineligible personal service costs, $26,335 in excess staffing expenses, and $6,578 in severance pay.

Key Recommendations

To SED:

- Review the recommended disallowances resulting from our audit and make the appropriate adjustments to VOA-GNY's CFRs and tuition reimbursement rates, as warranted.
- Work with VOA-GNY officials to ensure their compliance with SED's reimbursement requirements.

To VOA-GNY:

- Ensure that all costs reported on future CFRs comply with the RCM's requirements.

Other Related Audits/Reports of Interest

Infant and Child Learning Center - The Research Foundation for the State University of New York: Compliance With the Reimbursable Cost Manual (2017-S-22)
Interdisciplinary Center for Child Development: Compliance With the Reimbursable Cost Manual (2017-S-31)

State of New York
Office of the State Comptroller

Division of State Government Accountability

December 10, 2018

Ms. MaryEllen Elia
Commissioner
State Education Department
State Education Building – Room 125
89 Washington Avenue
Albany, NY 12234

Ms. Tere Pettitt
President and Chief Executive Officer
Volunteers of America – Greater New York, Inc.
135 West 50th Street
New York, NY 10020

Dear Ms. Elia and Ms. Pettitt:

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

Following is a report, entitled *Compliance With the Reimbursable Cost Manual*, of our audit of the costs submitted by Volunteers of America – Greater New York, Inc. to the State Education Department for the purposes of establishing tuition reimbursement rates. 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 draft report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

Table of Contents

State Government Accountability Contact Information:
Audit Director: Kenrick Sifontes
Phone: (212) 417-5200
Email: StateGovernmentAccountability@osc.ny.gov
Address:
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

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

Background

Volunteers of America – Greater New York, Inc. (VOA-GNY) is a New York City-based not-for-profit organization authorized by the State Education Department (SED) to provide Special Education Itinerant Teacher, full-day Special Class, and full-day Special Class in an Integrated Setting preschool special education services to children with disabilities who are between the ages of three and five years. For purposes of this report, these programs are collectively referred to as the SED preschool cost-based programs.

VOA-GNY was founded in 1896 and obtained approval from SED in July 1989 to serve preschool children with disabilities. During the period July 1, 2012 through June 30, 2015, VOA-GNY served an average of 443 preschool special education students each year. In addition to its preschool cost-based programs, VOA-GNY operated two other SED preschool programs: Evaluations and 1:1 Aides. However, payments for services under these programs are based on fixed fees, as opposed to the cost-based rates established through financial information reported on the annual Consolidated Fiscal Reports (CFRs) VOA-GNY files with SED. VOA-GNY also operates several programs authorized by the Office of Alcoholism and Substance Abuse Services, Office of Mental Health (OMH), Office for People With Developmental Disabilities (OPWDD), as well as more than 90 other social service programs throughout New York City, New Jersey, the Mid-Hudson region, and southwestern Connecticut.

The New York City Department of Education (DoE) refers students to VOA-GNY based on clinical evaluations and pays for its services using rates established by SED. The rates are based on the financial information that VOA-GNY reports to SED on its annual CFRs. To qualify for reimbursement, VOA-GNY's expenses must comply with the criteria set forth in SED's Reimbursable Cost Manual (RCM) and the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual), which provide guidance to special education providers on the eligibility of reimbursable costs, the documentation necessary to support these costs, and cost allocation requirements for expenses relating to multiple programs. The State reimburses the DoE 59.5 percent of the statutory rate it pays to VOA-GNY.

Section 4410-c of the Education Law provides that the State Comptroller shall audit the expenses reported to SED by special education service providers for preschool children with disabilities. For the three fiscal years ended June 30, 2015, VOA-GNY reported approximately $38.2 million in reimbursable costs for the SED cost-based programs. This audit focused primarily on expenses claimed on VOA-GNY's CFR for the fiscal year ended June 30, 2015 and included certain expenses claimed on its CFRs for the two fiscal years ended June 30, 2014.

Audit Findings and Recommendations

According to the RCM, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented. For the three fiscal years ended June 30, 2015, we identified $1,557,827 in reported costs that did not comply with SED's requirements for reimbursement. The ineligible costs included $815,480 in personal service costs, $401,684 in other than personal service (OTPS) costs, and $340,663 in insufficiently documented parent agency administration allocation costs (see Exhibit at the end of this report).

Personal Service Costs

Personal service costs, which include all salaries and fringe benefits paid or accrued to employees on the agency's payroll, must be reported on the CFR as either direct care costs (e.g., teachers' salaries) or non-direct care costs (e.g., administrators' salaries). For the three fiscal years ended June 30, 2015, VOA-GNY reported approximately $30.3 million in personal service costs for SED's preschool cost-based programs. We identified $815,480 in personal service costs that did not comply with the RCM's guidelines for reimbursement. SED, pursuant to a desk review, previously disallowed some of these personal service costs.

Costs Incorrectly Charged to the Cost-Based Programs

The RCM states that costs will not be reimbursable on field audit without appropriate written documentation of such costs. Moreover, the Regulations of the Commissioner of Education (Regulations) state that the evaluation costs must be reported in a separate cost center. VOA-GNY officials provided documentation showing that compensation costs for 38 employees who worked in non-SED programs were included in the cost-based programs, as follows:

- $1,106,148 in compensation costs for 35 employees whose personnel records indicated that they worked for VOA-GNY's New York City Housing Services, Northern New Jersey Community Support, and Mid-Hudson Homeless programs during the three fiscal years ended June 30, 2015. VOA-GNY charged $162,670 of the $1,106,148 to the cost-based programs.
- $379,105 for three employees whose personnel records indicated they worked for VOA-GNY's Evaluations Program – an SED fixed-fee program – during the three fiscal years ended June 30, 2015.

We recommend that SED disallow $541,775 ($162,670 + $379,105) in compensation charged to the preschool cost-based programs.

Over-Allocated Compensation Costs

According to the RCM, staff should be reported in the job code title supported by salary agreements and job descriptions. For example, an individual with the responsibility and authority of Executive

Director should be reported in that title. The CFR Manual states that the salary and fringe benefits of an individual who splits his/her time between two or more positions should be prorated based on the number of hours worked in each position. If that is not possible, an allocation based on a time study or units of service is acceptable.

For the two fiscal years ended June 30, 2014, VOA-GNY allocated $396,366 of the Associate Vice President of Program Services' compensation among various job titles on the CFRs. We found that this individual worked in VOA-GNY's administrative building where he oversaw SED as well as some non-SED programs, such as Mid-Hudson Homeless and Chemical Dependency Services and NNJ Community Support & Behavioral Health Services, and performed various administrative tasks. Thus, his responsibilities and authority aligned with that of agency administration. However, VOA-GNY did not provide time studies or other documentation to support the allocation of this employee's compensation. Absent such documentation and considering the employee's responsibilities, we recommend that SED disallow the $114,502 ($85,794 in salaries and $28,708 in fringe benefits), the amount of compensation over-allocated to the cost-based programs.

Excess Executive Compensation

According to the RCM, compensation (i.e., salaries plus fringe benefits) for an entity's staff whose function is that of Executive Director (ED), Assistant Executive Director (AED), or Chief Financial Officer (CFO) will be directly compared with the regional median compensation for comparable administration job titles of public school districts. Reimbursement shall not exceed the median compensation paid to comparable personnel in public schools for similar work and hours of employment in the region in which the entity is located. Staff should be reported in the job code title supported by salary agreements and job descriptions.

We found that for the three fiscal years ended June 30, 2015, compensation costs for the ED, AED, and CFO positions exceeded the regional median limit by $571,753. VOA-GNY allocated $85,572 of the $571,753 to the preschool cost-based programs, as follows:

- VOA-GNY officials reported $1,387,868 ($522,654 in 2012-13, $463,626 in 2013-14, and $401,588 in 2014-15) in total compensation for the ED position. They then adjusted the CFRs to reduce the total compensation to $1,095,297 ($1,387,868 - $292,571). However, the total regional median reimbursement limit for the three years for the ED position was $822,261. Thus, the total compensation exceeded the regional median limit by $273,036 ($1,095,297 - $822,261). VOA-GNY allocated $40,622 of the $273,036 to the cost-based programs.
- VOA-GNY officials reported $943,471 ($529,697 in 2012-13 and $413,774 in 2013-14) in total compensation for the CFO position. They then adjusted the CFRs to reduce the total compensation to $886,907 ($943,471 - $56,564). However, the total regional median reimbursement limit for the two years was $778,349. Thus, the total compensation exceeded the regional median limit by $108,558 ($886,907 - $778,349). VOA-GNY allocated $16,195 of the $108,558 to the cost-based programs.
- VOA-GNY officials reported $827,610 ($280,729 in 2012-13, $311,050 in 2013-14, and $235,831 in 2014-15) in total compensation for the Director of Division position (CFR Code

604). A Director of Division is responsible for overseeing a major segment of an agency. An ED is responsible for the overall administration of the agency and an AED assists the ED in the overall administration and acts on his/her behalf when necessary. VOA-GNY personnel records listed two individuals as Chief Operations Officers (COOs). The COO position is responsible for managing all program services and related activities. However, the two individuals were reported as Directors of Division on the CFRs.

For the three fiscal years, VOA-GNY did not report any compensation for an AED position title code. The COO for fiscal years 2012-13 and 2013-14 stated that when the ED was away, she was responsible for making all operational decisions. She added that the ED provided her with a letter of authority to act in his absence. Therefore, this COO was performing the duties of an AED. The personnel files for the 2014-15 COO indicated that he had recruited a human resources manager, coached the new CFO, assisted the ED with other recruitment, and performed other AED responsibilities. Based on the interview and reviews of personnel files, we concluded that these two individuals acted as AEDs rather than COOs. We determined that the total compensation for the COO position for the three fiscal years exceeded the AED's regional median limit by $190,159 ($827,610 - $637,451). We calculated that VOA-GNY allocated $28,755 of the $190,159 excess compensation to the cost-based programs.

We recommend that SED disallow $85,572 ($40,622 + $16,195 + $28,755), the portion of the excess executive compensation that was allocated to SED's preschool cost-based programs.

Ineligible Personal Service Costs

The RCM states that costs will not be reimbursable without appropriate written documentation. We compared agency administration personal service costs reported on the CFR for fiscal year 2012-13 with VOA-GNY's supporting documentation and found that the amount on the CFR was overstated by $240,257. VOA-GNY allocated $35,570 of the $240,257 to the preschool cost-based programs. VOA-GNY officials explained that they were asked by OMH to submit a revised CFR. Providers prepare CFRs using the CFR software. This information is sent electronically to OMH. OMH then transfers the completed CFRs to all relevant agencies. VOA-GNY suggested we use the revised CFR to conduct our audit. However, SED advised us to use the original CFR for our audit. We recommend that SED disallow $35,570 – the ineligible personal service costs charged to the preschool cost-based programs.

Excess Staffing Expenses

SED program approval letters establish the direct care student-to-staff ratios under which preschools must operate. According to the RCM, direct care personnel costs in excess of the approved ratios are not reimbursable. For the three fiscal years ended June 30, 2015, we compared teacher and teacher assistant staffing levels reported on VOA-GNY's CFRs with the relevant SED approval letters. We found that for 2012-13 and 2014-15, staffing levels exceeded approved levels by approximately 0.23 full-time equivalents. Consequently, we recommend that SED disallow $26,335 ($19,793 in salaries and $6,542 in fringe benefits) in excess staffing compensation costs because these costs did not comply with the requirements in the RCM.

Severance Pay

The RCM defines severance pay as compensation in excess of regular salary that is paid by a program to employees whose services are terminated. Severance pay is reimbursable provided it does not exceed two weeks' pay for a full-time employee.

On its CFRs for the two fiscal years ended June 30, 2015, VOA-GNY reported $36,639 ($33,813 in 2012-13 and $2,826 in 2014-15) in severance pay for three employees. These payments were $6,578 more than the two-week limit established by the RCM. Consequently, we recommend that SED disallow the $6,578 ($5,002 in salaries and $1,576 in fringe benefits) in excess severance pay because it did not comply with the requirements in the RCM.

Other Ineligible Personal Service Costs

According to the RCM, gifts of any kind, food for staff, and bad debt expenses are not reimbursable costs. For the three fiscal years ended June 30, 2015, we identified $33,698 in ineligible costs claimed by VOA-GNY as agency administration fringe benefits, as follows:

- $14,921 in gift cards for employees;
- $14,297 in bad debt expense write-offs for uncollectible employee loans; and
- $4,480 in coffee purchases for employees.

We recommend that SED disallow $5,148 – the amount of the $33,698 that VOA-GNY allocated to the preschool cost-based programs.

Other Than Personal Service Costs

According to the RCM, costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. For the three fiscal years ended June 30, 2015, VOA-GNY reported approximately $7.5 million in OTPS expenses for its SED preschool cost-based programs. We identified $401,684 of these costs that did not comply with SED's reimbursement requirements.

Non-Program Costs

The RCM states that costs will not be reimbursable on field audit without appropriate written documentation of such costs. Agency administration is defined as those expenses that are not directly related to a specific program but are attributable to the overall operation of the agency. The CFR Manual states that program/site costs are costs directly associated with the provision of services and are included on the appropriate expense line on the program/site data CFR schedule.

For the three fiscal years ended June 30, 2015, we determined that VOA-GNY incorrectly reported $1,756,267 as agency administrative costs on its CFRs. Our review of VOA-GNY's accounting records indicated that these costs did not pertain to agency administration. In fact, the costs pertained to OMH, OPWDD, and other non-SED programs. In addition, VOA-GNY officials did not provide documentation to show that any of these costs benefited the preschool cost-based programs. Consequently, we recommend that SED disallow the $257,536 of the $1,756,267 that was allocated to the preschool cost-based programs.

Consultant Costs

The RCM requires that consultant costs be supported by the consultant's resume and a written contract that includes the nature of the services to be provided, the charge per day, and service dates. In addition, all payments must be supported by itemized invoices that indicate the specific services actually provided; and for each service, the date(s), number of hours provided, the fee per hour; and the total amount charged. The RCM also states that 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.

For the three fiscal years ended June 30, 2015, we identified $144,148 in consultant costs that did not comply with the requirements in the RCM, as follows:

- $94,729 in legal costs that were not agency administrative costs and did not pertain to the SED programs. These costs included $5,407 for legal services pertaining to New Jersey and Mid-Hudson union contracts and $10,521 for legal services related to individuals who were neither administrative nor SED program-related employees.
- $49,198, including $25,064 in retainer fees, for which there was no documentation or the invoices did not contain the information required by the RCM.
- An invoice for $221 that was paid twice by VOA-GNY.

We recommend that SED disallow the $144,148 in consulting costs because they were undocumented, insufficiently documented, and/or were not related to the preschool cost-based programs, and therefore, did not comply with the requirements in the RCM.

Parent Agency Administration Allocation Costs

According to the RCM, costs must be reasonable, necessary, directly related to the special education program, and sufficiently documented. On its CFR for the three fiscal years ended June 30, 2015, VOA-GNY reported approximately $2.3 million in "parent agency administration allocation" costs, of which $340,663 was allocated to the SED preschool special education cost-based programs.

VOA-GNY officials told us that the approximately $2.3 million represented the costs of services provided to VOA-GNY by its parent company, VOA National. These services included administration, mission focus, communication, development, training, legal service, and fiscal management. According to the RCM, a preschool may claim reimbursement for parent agency administrative costs as long as those costs are not duplicative in nature, provide a direct benefit to the subsidiary, are allocated to all programs on a consistent basis, and are defined as reimbursable in the RCM and the CFR Manual. Such costs are categorized as "parent agency administration allocation" costs and should be reported on schedule CFR-3 line 38.

VOA-GNY officials did not provide adequate documentation to support the approximately $2.3 million in parent agency administrative costs. They explained that the amounts paid to VOA National were calculated by taking 2.25 percent of the lower of VOA-GNY's actual revenue or revenue cap for each year. However, officials did not provide sufficient documentation to show the basis for the 2.25 percent rate, nor were they able to provide a list of identifiable, verifiable, measureable, and detailed parent agency administration expense transactions. Consequently, we were unable to determine if the costs reported by VOA-GNY as "parent agency administration allocation" were allocated consistently, not duplicative in nature, and were reimbursable as per the requirements in the RCM and CFR Manual.

Therefore, we recommend that SED disallow $340,663 – the amount of the approximately $2.3 million that was allocated to the SED cost-based programs.

Recommendations

To SED:

1. Review the recommended disallowances resulting from our audit and make the appropriate adjustments to VOA-GNY's CFRs and tuition reimbursement rates, as warranted.

2. Work with VOA-GNY officials to ensure their compliance with SED's reimbursement requirements.

To VOA-GNY:

3. Ensure that all costs reported on future CFRs comply with the RCM's requirements.

Audit Scope, Objective, and Methodology

We audited the costs reported on VOA-GNY's CFRs to determine whether they were reasonable, necessary, directly related to the special education programs, and sufficiently documented pursuant to SED guidelines. The audit focused primarily on expenses claimed on VOA-GNY's CFR for the fiscal year ended June 30, 2015 and included certain expenses claimed on its CFRs for the two fiscal years ended June 30, 2014.

To accomplish our objective, we reviewed the Regulations, the RCM, the CFR Manual, VOA-GNY's CFRs, and relevant financial and program records for the audit period. In addition, we evaluated the internal controls over the costs claimed on, and the schedules prepared in support of, the CFRs submitted to SED. We also interviewed VOA-GNY officials, staff, and independent auditors to obtain an understanding of VOA-GNY's financial and business practices. In addition, we selected a judgmental sample of reported costs to determine whether they were supported, program related, and reimbursable. Specifically, we reviewed costs that we considered high risk and reimbursable in limited circumstances based on prior audit report findings, such as salaries and consultant costs. Our samples were based on the relative materiality of the various categories of costs reported and their associated level of risk. Our samples were not designed to be projected to the entire population of reported costs. Also, our review of VOA-GNY's internal controls focused on the controls over VOA-GNY's CFR preparation process.

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 during our audit provides a reasonable basis for our findings and conclusions.

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

Authority

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

Reporting Requirements

We provided draft copies of this report to SED and VOA-GNY officials for their review and formal comment. Their comments were considered in preparing this final report and are included at the end of it. In their response, SED officials agreed with our recommendations and indicated that they will take steps to address them. However, VOA-GNY officials in their response disagreed with most of our proposed disallowances. Our responses to certain VOA-GNY comments are embedded within VOA-GNY's response. VOA-GNY officials also included a lengthy set of attachments with their response. Those attachments are not included in this report. However, they have been retained on file at the Office of the State Comptroller.

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

Kenrick Sifontes, Audit Director
Gene Brenenson, CPA, Audit Manager
Keith M. Dickter, CPA, CISA, Audit Supervisor
Marc Geller, Audit Supervisor
Irina Kovaneva, Examiner-in-Charge
Legendre Ambrose, Senior Examiner
Claire Jamieson, CPA, Senior Examiner
Jiaying Li, CPA, Senior Examiner
Wayne Scully, Senior Examiner
Hugh Zhang, Senior Examiner
Yisroel Burnstein, CPA, Staff Examiner

Division of State Government Accountability

Andrew A. SanFilippo, Executive Deputy Comptroller
518-474-4593, asanfilippo@osc.ny.gov

Tina Kim, Deputy Comptroller
518-473-3596, tkim@osc.ny.gov

Ken Shulman, Assistant Comptroller
518-473-0324, kshulman@osc.ny.gov

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

Volunteers of America – Greater New York
Summary of Submitted and Disallowed Program Costs
for the 2012-13, 2013-14, and 2014-15 Fiscal Years

Program Costs	Amount Per CFR	Amount Disallowed	Amount Remaining	Notes to Exhibit
Personal Services				
Direct Care	$27,803,911	$521,812	$27,282,099	A-E, G-I, K-O, S-V
Agency Administration	2,492,017	*293,668	2,198,349	
Total Personal Services	**$30,295,928**	**$815,480**	**$29,480,448**	
Other Than Personal Services				
Direct Care	5,682,719	0	5,682,719	B, C, J, N, P, Q
Agency Administration	1,858,001	401,684	1,456,317	
Total Other Than Personal Services	**$7,540,720**	**$401,684**	**$7,139,036**	
Parent Agency Administration Allocation	**340,663**	**340,663**	**0**	C, F, N, R
Total Program Costs	**$38,177,311**	***$1,557,827**	**$36,619,484**	

*SED, pursuant to a desk review, previously disallowed some of these costs.

Notes To Exhibit

The following Notes refer to specific sections of SED's RCM, the CFR Manual, and the Regulations used to develop 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 VOA-GNY officials during the course of our audit.

A. RCM Section I(6) - Staff-to-student ratios are defined in Part 200 of the Commissioner of Education's (Commissioner) Rules and Regulations. A specific approved program's student-to-staff ratio is also defined in that program's programmatic approval letter from SED's Office of Special Education-Special Education Quality Assurance. Direct care personnel in excess of, or not prescribed by such ratios, are not reimbursable, unless supported by the student's individualized education program (IEP) requirements and the program generated summary data relating to those IEPs. An SED programmatic review and approval of variations from these ratios is required for costs of additional staff to be reimbursable.
B. RCM Section I(9) - Agency administration is defined as those expenses that are not directly related to the specific program but are attributable to the overall operation of the agency. These cost include: costs for the overall direction of the organization; costs for general recordkeeping, budget and fiscal management; costs for public relations (non-fundraising); and costs for parent agency expenditures.
C. RCM Section II - Generally, costs will be considered for reimbursement provided such costs are reasonable, necessary, directly related to the special education program, and sufficiently documented.
D. RCM Section II(2)(A) - Administrative costs include salary and fringe benefit costs of persons whose primary function is management and administration of the program and/or agency, in accordance with federal and State laws, Regulations of the Commissioner of Education and/or the Board of Directors. All administrative costs are subject to the non-direct care cost parameter.
E. RCM Section II(6) - Bad debt expenses are not reimbursable.
F. RCM Section II(10) - Charges to programs receiving administrative services, insurance, supplies, technical consultants, etc. from a parent or related organization are reimbursable provided they are not duplicative in nature, provide a direct benefit to subsidiary charged and based on actual direct and indirect costs, allocated to all programs on a consistent basis, and defined as reimbursable in the Regulations of the Commissioner of Education, the CFR Manual, or the RCM.
G. RCM Section II(13)(A)(4)(a) - Compensation (i.e., salaries plus fringe benefits) for an entity's staff whose function is that of Executive Director, Assistant Executive Director, or Chief Financial Officer will be directly compared to the regional median compensation for comparable administration job titles of public school districts. Reimbursement of employee compensation for these job titles shall not exceed the median compensation paid to comparable personnel in public schools for similar work and hours of employment in the region in which the entity is located. Compensation for an "Executive Director" providing services to an Article 81 and/or Article 89 funded program will be compared to the median "Superintendent-Independent" compensation for the region in which the

entity is located and compensation for an Assistant Executive Director and Chief Financial Officer will be compared to the median compensation for "Assistant Superintendent."

H. RCM Section II(13)(A)(4)(b) - Staff should be reported in the job code title supported by salary agreements and job descriptions. For example, an individual who fills the position and holds the responsibility and authority of Executive Director should be reported 100% as Executive Director.
I. RCM Section II(13)(A)(4)(e) - Direct care student to staff ratios shall not exceed the approved staffing levels supported by SED's program approval letter. Any net excess of staff will not be included as part of reimbursable costs in the program's reconciliation tuition rate.
J. 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.
K. RCM Section II(22)(C) - Costs of food provided to any staff are not reimbursable.
L. RCM Section II(24) - Gifts of any kind are non-reimbursable.
M. RCM Section II(46)(B)(2) - The cost of severance pay is reimbursable provided that it does not exceed two weeks' pay for a full-time employee.
N. RCM Section III(1) - Costs will not be reimbursable on field audit without appropriate written documentation of costs.
O. RCM Section III(1)(B) - Actual hours of service are the preferred statistical basis upon which to allocate salaries and fringe benefits for shared staff who work on multiple programs. Entities must maintain appropriate documentation reflecting the hours used in this allocation.
P. RCM Section III(1)(C)(2) - Adequate documentation includes, but is not limited to, the consultant's resume, a written contract that includes the nature of the services to be provided, the charge per day, and service dates. All payments must be supported by itemized invoices that indicate the specific services actually provided; for each service, the date(s), number of hours provided, and the fee per hour; and the total amount charged.
Q. CFR Manual Page 13.1 - Program/site expenses are costs directly associated with the provision of services. Report all expenses incurred on the appropriate lines.
R. CFR Manual Page 15.6 - Parent Agency Administration Allocation costs should be reported on schedule CFR-3 line 38.
S. CFR Manual Page 16.1 - Multiple position title codes must be used when an employee performs job duties that relate to more than one function. The salary/wages and associated fringe benefits of an individual who splits his/her time between two or more positions should be prorated based on the number of hours worked in each position. If an allocation based on hours is not possible, then an alternative allocation method based on a time study or units of service will be accepted.
T. CFR Manual Page 42.1 - Agency administration do not include program/site-specific costs or program administration costs. Program administration costs are administrative costs that are directly attributable to a specific program/site (i.e., personal services and fringe benefits of Billing Personnel, Program Director, Program Coordinator) and are to be included on the appropriate line of expense on CFR-1.
U. CFR Manual Page 51.12 - The Executive Director is responsible for the overall administration of the agency. An Assistant Executive Director assists the Executive Director in overall

administration of the agency and acts on his or her behalf when necessary. A Director of Division, Code number 604, is responsible for overseeing a major segment of functions for the agency.

V. Regulations Section 200.9(e)(1)(i)(d) - Evaluation costs and related statistical data for preschool students, as prescribed in Section 4410 of the Education Law and Sections 200.4 and 200.16 of this Part, must be reported in a separate cost center.

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
O: 518.473-4706
F: 518.474-5392

September 27, 2018

Mr. Kenrick Sifontes
Audit Director
Division of State Government Accountability
NYS Office of the State Comptroller
59 Maiden Lane, 21st Floor
New York, NY 10038

Dear Mr. Sifontes:

The following is the New York State Education Department's (SED) response to the draft audit report, 2017-S-32, Compliance with the Reimbursable Cost Manual: Volunteers of America – Greater New York, Inc. (VOA-GNY).

Recommendation 1:

Review the recommended disallowances resulting from our audit and make the appropriate adjustments to VOA-GNY's CFRs and tuition reimbursement rates, as warranted.

We agree with this recommendation; provided that SED will look further into OSC's application of the Reimbursable Cost Manual (RCM) standard that costs for "direct care personnel in excess of, or not prescribed by, such [student-to-staff] ratios are not reimbursable" as the RCM further states, "unless supported by the student's IEP requirements and the program generated summary data relating to those IEPs." As such, 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:

Work with VOA-GNY officials to ensure their compliance with SED's reimbursement requirements.

We agree with this recommendation. SED will continue to provide technical assistance whenever requested and will strongly recommend the VOA-GNY 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, 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 James Kampf, Supervising Accountant, at (518) 474-3227.

Yours truly,

Sharon Cates-Williams

Sharon Cates-Williams
Deputy Commissioner

c: Christopher Suriano
Harold Matott
James Kampf

Agency Comments - Volunteers of America – Greater New York, Inc. and State Comptroller's Comments

Volunteers of America
GREATER NEW YORK

September 19, 2018

Mr. Kenrick Sifontes
Audit Director
Office of the State Comptroller
Division of State Government Accountability
59 Maiden Lane – 21st Floor
New York, NY 10038

Dear Mr. Sifontes:

This letter serves as our response to the findings contained in the draft audit report of Audit 2017-S-032 issued by the Office of the New York State Comptroller (OSC) on August 21, 2018, on Volunteers of America-Greater New York (VOA-GNY) for the three years ended June 30, 2015.

For nearly 125 years, VOA-GNY has provided life-changing, often life-saving services to the most vulnerable of our neighbors, including children of all ages, veterans, families who are homeless or escaping domestic violence, and individuals living with behavioral health issues, intellectual and developmental disabilities, HIV/AIDS, and substance use disorders. Our annual operating budget is more than $100 million, making VOA-GNY one of the largest, multifaceted not-for-profits in New York State.

As part of our mission to help children with developmental delays, we provide educational and evaluation services to over 300 children ranging in age from three to five. Our preschool services represent $13M a year or $38M for the three years audited. We have been providing special education services for close to 30 years, and are known in the industry and to our government partners and others, for the outstanding level of care we provide. We have been accredited by the National Association for the Education of Young Children (NAEYC), a professional membership organization that works to promote high-quality early learning for all young children, infant through age eight, by connecting early childhood practice, policy, and research for the past several decades. We are deservedly proud of the early childhood services we provide, the staff that provide them, and the positive impact we have had on the children's – and their families'– lives. We provide these services despite inadequate funding from the State and City of New York. The lack of adequate funding has been exacerbated by minimal Cost of Living adjustments that have been approved by NYS for these programs. Over the past 10 years we have experienced a cumulative increase in our reimbursement of only 9.73% while the public schools educating typically developing children, with whom we compete for staff and resources, received over 35% increases in State funding. Accordingly, we regularly incur costs significantly in excess of the reimbursement provided. In fact, during just the three years under audit, we have spent $3.2M more than the reimbursement for these needed services. As a result of our necessary spending exceeding the cost screen imposed under the NYSED rate setting methodology, NYSED has already removed from our reimbursement rates more than the total identified in the Draft Report as non-reimbursable.

ADMINISTRATIVE OFFICE
135 West 50th Street, 9th floor • New York, NY 10020 • Tel: (212) 873-2600
www.voa-gny.org

We are very cognizant of the importance of regulatory compliance, having been the subject of regular audits by numerous third-party governmental agencies. The high standards to which we hold ourselves and the services we deliver are reflected in the successes of these reviews. Most important, taken as a whole, the OSC Draft Report is a testament to the vitality of our compliance efforts, with the most significant findings reflecting a difference of opinion and interpretation of the Reimbursable Cost Manual, rather than our failure to maintain sufficient documentation in support of the costs reported. This, we believe, is an important point worthy of acknowledgment in the narrative of the report and which we believe distinguishes VOA-GNY from other OSC-audited programs.

Costs Incorrectly Charged to the Cost-Based Program

We disagree with the proposed disallowance of compensation costs for 35 employees reported as agency administrative costs on CFR-3. The auditor's stated contention for its finding is that these employees worked directly for various VOA-GNY programs and therefore, their compensation should not have been reported as CFR-3 agency administrative costs. As explained in detail below, we feel that these costs are, in fact, legitimate agency administration costs and were correctly reported on the CFR.

The overarching principle of agency administration is that it represents and includes the costs associated with the functions that are related to the overall administration of all the agency programs, or that support functions for the agency, and not to a single program. This typically includes the executive office, human resources, and all accounting functions including general ledger, accounts payable, purchasing, billing, and accounts receivable. Since these functions benefit the entire agency and need to be allocated on some equitable basis, the CFR requires that they be reported on CFR-3 and be allocated utilizing ratio value. VOA-GNY staff members work at program sites based on program administration and performance needs, as well as contractual requirements to facilitate operational efficiency. However the fact that they are located offsite from central administration does not change the nature of the services that they are providing, and we affirm that they were correctly charged during the audit period as agency administration costs. We have previously provided your staff with copies of the job descriptions for the staff included in this finding. These job descriptions clearly show the agency administrative functions they are responsible for and how they are correctly reported as agency administration.

State Comptroller's Comment - According to the CFR Manual, Agency Administration Costs include all administrative costs not directly related to specific programs/sites but that are attributable to the overall operation of the agency. Moreover, agency administration costs do not include program administration costs. Our review of job descriptions and performance evaluations for 33 of the 35 employees (VOA-GNY could not provide the remaining two folders) determined that these employees did not provide services that benefited all agency programs. Rather, their services were for specific non-SED programs and VOA-GNY should have charged these costs to those specific programs.

The allocation of the pool of administrative costs utilizing ratio value indicates that individuals in the pool may have larger or smaller rolls in a particular program, and therefore, may be over- or under-allocated to a specific program individually. However, at the same time, there are also individuals in the administrative pool who have an opposite but proportionate participation in that program which offsets any over- or under-allocation to that program. For example, Accounts Payable (A/P) is a function that is done for all programs operated by the agency. At different points in time, any

2

individual A/P staff member may spend more or all of their time dealing with programs other than the New York State Education Department (SED) programs. However, if these individuals are eliminated from the allocation based on ratio value, then only the SED A/P staff are being allocated through ratio value, and a share of their cost will be allocated to the other non-SED programs. If this occurs, the non-SED programs would receive a disproportionate share of the A/P costs (100% of the staff spending most of their time and their ratio value share of the A/P staff spending a majority of their time on SED). Proper cost accounting would require that both sides of the pool be included before a universal allocation methodology is used, otherwise the cost allocation will be skewed to one program or another. Therefore, carving individuals out of the pool of agency administration is inappropriate on a Generally Accepted Accounting Principles (GAAP) basis since these are agency administration expenses, but also result in the over-allocation of these costs to a program through their share of ratio value. Therefore, although we believe that GAAP accounting would say that these are agency administration expenses and should be reported as such, if the final determination of the audit is that these staff need to be pulled out of the pool of agency administration, then the corresponding SED staff included in agency administration must also be carved out of the pool. In effect, a full recalculation would offset the finding of $162,670.

State Comptroller's Comment - We found that VOA-GNY did in fact carve out certain administrative employee costs (i.e., compensation for the business and human resources managers) and charged them to specific SED programs on Schedule CFR-1.

We disagree with the proposed three-year disallowance of $379,105 of compensation (salary and fringe) for three employees. The auditor's stated contention is that these staff provided services for VOA-GNY's evaluation programs and therefore should not have been reported in the tuition-based programs. As discussed below, we believe that the staff, based on their duties, were appropriately allocated between the evaluation programs and the tuition-based programs. This finding should be eliminated.

We believe that there is a misunderstanding of the role and services of these staff which is reasonable, necessary, and directly related to the special education program. The auditor's finding suggests that three employees including one Intake Coordinator Supervisor and two Program Coordinators should have only been charged to a separately conducted evaluation program. However, these individuals provided necessary services to the preschool programs (9100 & 9160) involved with the placement process for the children. These three staff did not perform initial evaluations and the small amount of their time that they were involved with evaluation was accounted for by allocating time to the evaluation program. Their primary responsibility was handling the placement process for all children including those who were evaluated by VOA-GNY as well as those who were not evaluated by VOA-GNY. The placement process includes serving as the liaison with the CPSE Administrators to set up IEP meetings, coordinating the evaluator's reports with the preschool providers, and placing the children in appropriate preschool programs. The placement process also includes ensuring that specific accommodations, program modifications, supports, and services for the child are in place prior to the implementation of any services in the preschool programs. The placement process is a separate service that follows the initial evaluation; it is not part of and it is not necessary for the initial evaluation to be performed by VOA-GNY. These three staff perform necessary placements for all the children assigned to the VOA-GNY program. We have previously provided the auditor with copies of the job descriptions for the Intake Coordinator Supervisor and the Program Coordinator which clearly show their primary functions are placement and not evaluation.

VOA-GNY charged the evaluation program for time related to evaluation services by allocating their time between programs and evaluations based on the number of students and number of evaluations that were done by VOA-GNY. However, the balance of their time that was charged to the preschool program

3

was for services that were reasonable, necessary, and directly related to the preschool program, and therefore, this finding should be eliminated for these staff.

State Comptroller's Comment - We did not misunderstand the roles and services of the three employees. According to SED, selecting a child's placement ("placement process") is the purview of the local school district's Committee on Preschool Special Education. Moreover, the CFR Manual requires the costs for evaluations be reported in the fixed-fee Evaluations program cost center on the CFRs. Therefore, VOA-GNY should not have reported these costs as part of the SED cost-based programs.

Over-Allocated Compensation Costs

We disagree with the draft findings recommending the disallowance of $114,502 ($85,794 in salaries and $28,708 in fringe benefits) for the Director of Program Services' compensation based on it being inappropriately charged to the preschool program.

During the period under audit, this individual served as the Director of Program Services and performed agency-wide responsibilities. These agency-wide responsibilities are considered in allocations made to PTC 604 in agency administration. In his capacity as Director of Program Services, he supervised the SED and Office of People with Developmental Disabilities (OPWDD) programs. His time was appropriately allocated to PTC 501 and 502; therefore, this finding should be eliminated. For FY 2013/14, his time associated with his direct supervisory responsibility for the SED and OPWDD services were appropriately charged to those programs directly as either PTC 501 or 502. He also had direct responsibilities for other non-CFR programs which were charged to "Other Programs" on CFR-2 Column 7. These allocations reflect the complexity of the different funding sources that VOA-GNY complies with along with his multiple assignments. The CFR reporting reflects the work assignments during that time frame and the need to conform to various cost reporting requirements. We provided the job description for this senior staff member to the auditors in support of the allocations to various programs and agency administration. The individual served in the capacity described in his job description and as allocated for the period under audit.

State Comptroller's Comment - A job description details the duties an employee is expected to perform rather than the duties that are actually performed. VOA-GNY has not provided any documentation to show the duties this employee performed. They also did not provide documentation, such as time studies, to support the allocation of this employee's compensation.

Excessive Executive Compensation

We disagree with the draft findings that $85,572 of VOA-GNY's executive compensation for the CEO, COO, and CFO was inappropriately charged to the preschool program. As the auditor's report correctly cites, the Reimbursable Cost Manual (RCM) requires that reimbursement of the compensation for executive staff shall not exceed the median compensation paid to comparable personnel in public schools. However, as the reimbursement to VOA-GNY was reduced to reflect the median compensation level by SED as part of the normal rate setting process, VOA-GNY was only reimbursed at the median level for these costs. The RCM and CFR manuals do not instruct an organization to not report or disclose the full compensation of these staff positions in the CFR. We disclosed the correct and full value of compensation, but we complied with the median compensation limit in the calculation of reimbursable costs. We have not

4

been reimbursed for executive compensation exceeding the median level. In all years of reporting actual compensation, VOA has not been instructed by SED to limit the amount reported to the capped level. We would certainly report at only the capped level, rather than actual level, if this is required. SED has not issued guidance on this reporting matter and has treated it as appropriate for VOA to report the full compensation of the CEO and CFO in the CFR. SED has appropriately accounted for the salary cap in the rate-setting function to limit the reimbursement to the school for these positions. Please note that the executive staff are responsible for an organization that operates over 80 programs for various federal, state, and local agencies as well as the properties that serve these programs. The compensation levels are appropriate for the size and complexity of the organization's entire operations. VOA-GNY is not solely operating two preschool programs and has never received reimbursement for the preschool programs above the permitted median compensation level.

In addition, the auditor should be aware that the median salary levels used by SED to make this rate-setting adjustment are not determined or published by SED until after the CFRs are filed for each respective year. Therefore, since SED does not establish the median salary levels for reconciliation rates until after the CFRs are filed for that year, there is no way for the school to report at the median salary level for the reporting year until after the reports are due.

As noted by the auditor. we had implemented a policy of disallowing a portion of the executive compensation on the 2013/14 and the 2014/15 CFRs. Using the appropriate CFR screen methodology, we reduced compensation to align with median levels of reported compensation as we believed that this was the correct way of reporting executive compensation. We self-disallowed compensation for those subject to the Median Salary limitation. This adjustment can be found in the details for Line 41 of CFR-3 as "Median Salary Adjustment" in both of those years. However, as discussed above, since the median salary amounts are not established until after the CFRs are filed for that year, we have no way of knowing the exact amount of those screen limitations at the time we are required to submit the CFR, and therefore, the amounts have to be estimated. However, the amounts that were reported on the CFR for both of those years were adjusted to the actual Median Salary level by SED when they reconciled our rates as part of their normal rate-setting process. Therefore, the amounts reimbursed to the school were limited to the Median Salary amount which is the only requirement of the RCM.

State Comptroller's Comment - Our audit is independent of SED's desk review, and we may be aware of information that was unavailable to SED. As noted on page 6, paragraph 2, and the Exhibit on page 14 of the report, we acknowledged that SED had previously disallowed a portion of the ineligible personal service costs during its desk review. In addition, although median salary levels may not be established until CFRs are filed, the RCM states, "All approved programs shall be subject to a fiscal audit pursuant to Section 200.18 of the Commissioner's Regulations. Tuition rates may be adjusted accordingly based on the results of the final audit."

For all of the above reasons, our CFR reporting and cost reimbursement were in full compliance with the RCM and CFR manuals; therefore, this finding should be eliminated. VOA-GNY was correctly reimbursed within permitted limits.

Ineligible Personal Service Costs

As indicated in the draft report, VOA-GNY had made changes to certain administration salaries reported on the 2012/13 CFR based on comments received from the Office of Mental Health (OMH). This was fully disclosed to OSC when we submitted our backup documents for the audit. This entry was not reflected on the trial balance; it was a CFR-only entry to move salaries out of administration based on the comments received from OMH. This change was made well after the end of the fiscal year and the completion of our financial statement audit. Therefore, revising the trial balance would not have been appropriate under internal controls protocols, as the period was locked upon conclusion of the audit.

The revision to the CFR for OMH was completed and uploaded into the State's CFR system on August 20, 2014. That is the same system that is used by SED to access the CFRs used for rate-setting. Therefore, this upload also constituted filing this change with SED. However, at the same time as we were revising the CFR for OMH, SED was in the process of issuing our reconciliation rate (issued on August 15, 2014). Because of the timing of their reconciliation, SED had based it on the CFR before the reclassification. This is also the version that OSC is using for their audit. Because of the significant screen losses in that year, this change to the CFR did not affect the reconciliation rate that was issued and we were not reimbursed for non-allowable or excessive costs. We understand that OSC's starting point for this audit is the CFR tying into the reconciliation rates. However, we feel that we had appropriately filed and modified the CFR based on OMH's CFR review comment, and, in fact, had also uploaded this revised CFR to SED for its notification. Therefore, there should be no change to the CFR which was mandated by OMH, submitted to NYS's CFR system, and did not impact the reimbursement rate for VOA-GNY.

State Comptroller's Comment - We are not questioning VOA-GNY's revision/modification of its 2012-13 CFR. Based on SED's advice, we audited the original 2012-13 CFR. Our recommended disallowance is based on the cost reported on the original CFR. The disallowed costs did not comply with the requirements in the RCM.

Excess Staffing Expenses

We disagree with the proposed disallowance of $26,335 ($19,723 in salaries and $6,542 in fringe benefits) of excess staffing expenses charged to the SED preschool cost-based programs. The auditor's stated contention is that the staffing levels reported on the CFR exceed approved levels. Our staffing was not excessive, and the number of teachers and teacher assistants we had was in line with the approved classroom ratios for the programs we operate. We believe that the staffing that the auditor stated is excessive were in fact Teacher Floaters which were reported with the classroom teachers on the CFR. Teacher Floaters are outside of the classroom ratios and are not excess staffing.

State Comptroller's Comment - As stated on page 8 of the audit report, we determined that, for fiscal years 2012-13 and 2014-15, VOA-GNY's staffing levels exceeded approved levels. The recommended disallowance does not include compensation costs for Teacher Floaters.

We believe that since the classrooms' staffing levels in the 9100 and 9160 programs were not excessive, this finding should be eliminated from the report.

Severance Pay

We disagree with a portion of the proposed disallowance of $6,578 of severance pay. The auditor's draft finding is that VOA-GNY paid severance pay to seven employees which exceeded the two-week pay limit set by the RCM.

State Comptroller's Comment - As stated on page 9 of our audit report, we identified three employees whose severance pay exceeded the two-week limit. Consequently, we recommended that SED disallow $6,578 in severance pay for the three employees.

As discussed in detail below, the amounts we are contesting relate to an error in the auditor's calculation of severance for one individual and payments to four of the teaching staff which were not severance payments.

After reviewing the auditor's worksheet, we identified an error in cell AM4 for employee GD which significantly overstated the actual severance pay to this individual (which is shown in cell 14 and AG4). We have previously provided the auditor with a revised worksheet correcting that amount and the calculation of the total disallowance. The auditor's worksheet contained an incorrect calculation and therefore, the finding was incorrect.

State Comptroller's Comment - We correctly calculated GD's allowable severance pay. For the fiscal year July 1, 2012 through June 30, 2013, VOA-GNY reported $30,627 in compensation for GD. However, our review determined that although GD's last day of employment was January 4, 2012, he continued to be compensated through July 31, 2012 – the first month of the new fiscal year. VOA-GNY provided no documentation that he worked or provided any services after January 4, 2012. Therefore, of the $30,627, we allowed payment for $3,628 of unused leave plus $3,819 in severance pay – the two-week limit. We recommended that $3,432 of the remaining $23,180 be disallowed. The $3,432 represented the amount allocated to the SED preschool cost-based programs.

In addition, for four of the teaching staff, the amount that the auditor is claiming to be severance pay was actually 12-month school employee summer recess payout for terminated employees. Twelve-month employees are paid their annual salary as stated in their contract in bi-weekly payments over 12 months or 52 weeks to allow the staff member to receive a uniform rate of pay throughout the calendar year. The staff receive deferred payments in order to smooth their cash flow to facilitate their personal budgets. This encompasses weeks that the school was closed including the last weeks of August. This means that the final payments for these staff were validly earned and owed prior to but paid after their date of termination. In August 2014, this equated to three weeks that were owed to these staff. VOA-GNY followed its 12-Month School Employee Summer Recess Payout Policy to guide our payment of the salary owed to the staff that work the entire year. As can be seen in the auditor's work paper, the termination date for all four of these staff was August 11, 2014, which was the last day of the summer school program. Therefore, since these were amounts were earned by and owed to the staff for working the full school year, they are not severance pay. These amounts were regular compensation for teaching the full 12-month school year. We have previously provided the auditor with a revised schedule to correctly label these ordinary earnings as non-severance payments. We had also previously provided copies of the Separation Notices for these employees showing these payments being described as Summer Resource Payout.

State Comptroller's Comment - Summer recess payouts were not included in the recommended disallowance.

Based on the above information provided during the audit, we note that the finding amount should be $2,855.00, not $6,578.00. We appreciate the opportunity to review this finding for purposes of future corrective action in reviewing such calculations.

Other Ineligible Expenses

We disagree with the proposed disallowance of $5,148 of other ineligible personal service costs that the

7

draft findings report indicates was allocated by VOA-GNY to the preschool cost-based programs. In particular, $2,231 of "gift cards," whose categorization is a misnomer to its intent, was part of an incentive program to encourage employees to get annual medical physicals to promote good health. By encouraging preventive health care for our employees, our goals were to improve employee health, improve employee morale and performance, and to save money on our health insurance premiums. In order to qualify for an incentive "gift" card, employees had to provide support to demonstrate that they received an annual physical. This portion of the amount recommended for disallowance did not relate to gifts or discretionary bonuses. This is similar to organizations that offer smoking cessation programs or cover a portion of an employee's gym membership to improve health, performance, and to reduce cost of insurance. We believe that this finding should be modified.

State Comptroller's Comment - The RCM specifically states that gifts of any kind are not reimbursable. Further, the RCM does not allow reimbursement of the incentives paid by VOA-GNY.

Non-Program Costs

The auditor has identified certain other than personnel services (OTPS) costs as not pertaining to agency administration and therefore, incorrectly reported on CFR-3, Agency Administration. The basis for this contention is that these costs were initially charged to non-SED programs in the General Ledger, and therefore because of this internal reporting, belong exclusively to those other programs. There were also contracted temporary accounting/finance staff for whom the auditor states we did not provide supporting documentation to show how these costs benefitted the education program.

The largest single item of OTPS costs in question relates to the agency-wide audit fees that had been allocated to each VOA-GNY program on our general ledger before being reclassified to agency administration for reporting on CFR-3 line 6 "Audit/Legal." These audit fees totaled $671,303 for the three years ending June 30, 2015 ($216,413 for 2013, $225,586 for 2014 and $229,304 for 2015). The CFR manual (Page 15.1) states:

> "Agency-wide auditing and legal cost cannot be directly charged as program/site costs on Schedule CFR-1"

Even though we initially charged these expenses to programs in our general ledger for internal tracking purposes in accordance with GAAP, we had to comply with reporting of these costs as specifically required by the CFR manual for CFR reporting purposes.

State Comptroller's Comment - VOA-GNY did not provide sufficient documentation to show that the $1,756,267 in agency administration costs benefited all programs. Rather, information provided by VOA-GNY indicated that the $1,756,267 should have been charged to specific programs such as its NYC Specialized Housing, NNJ Community Support Services, and NYC Homeless Services program.

There were also audit fees included on the auditor's schedule which were duplicated and therefore are overstating the disallowance. This totals $25,513 for the three years ending June 30, 2015 ($12,889 for 2013 and $12,624 for 2015). Because of these reasons, we believe that the audit fees portion of the audit findings should be eliminated.

8

State Comptroller's Comment - We disagree. The disallowance for audit/legal fees was not duplicated. In fact, we took great care not to disallow costs that were properly charged and/or self-disallowed by VOA-GNY. Furthermore, we requested supporting documentation for the audit/legal fees as well as other fees. This documentation was never provided.

Similarly, the costs for ADP payroll processing ($3,615) and insurance Gen/Prof/Liability ($22,588) are also generic agency administration costs and were correctly reported as agency administration costs regardless of where they are reported on the general ledger.

The auditor has also questioned $290,616 of temporary accounting/finance staff. These are temporary staff that were hired to perform general accounting functions in the Finance department, and filled vacant positions temporarily in Accounts Payable, Cash Receipts, Payroll, and general accounting departments. Staff accountants were also used to provide assistance with end-of-year closings and preparation for the general-purpose audit for the organization. These temporary services are properly included as general administration expenses for both GAAP and CFR reporting purposes.

We have previously provided the auditor with a detailed list of these temporary staff by invoice showing the dates of service and the administrative service they provided during the audit, and we believe that this finding should be eliminated.

Consultant Cost

Legal Charges

We disagree with the draft findings recommending the disallowance of $94,729 in legal fees. While there are certain costs related to legal counsel on employee matters, legal counsel is utilized by our Human Resources staff in their service to the overall organization as well as in the proper care of staff in confidential employment matters. We believe that this is a proper administrative expense. The stated reason for this finding is that these costs were not agency administrative costs or did not pertain to the SED program. Therefore, we believe that this finding should be eliminated from the report.

State Comptroller's Comment - We disagree. The legal costs identified pertained to specific programs and should be charged to those programs rather than to agency administration.

Retainer Charges

We disagree with the draft findings recommending the disallowance of $25,064 of VOA-GNY's consultant retainer fees. The stated reason for the disallowance was that the charges were not supported by documentation or the invoices did not provide enough detail to determine the actual services provided. We did, subsequent to the issuance of this finding, provide the auditor with the requested supporting documentation showing the details of the services provided by these consultants. The documentation clearly shows that these services were related to the employment agency hired to find the replacement for the CEO and CFO positions. The costs for employment agencies to recruit staff are allowable per the RCM manual. Therefore, based on the documentation provided, this finding should be eliminated from the report.

State Comptroller's Comment - VOA-GNY did not provide sufficient documentation, consistent with the requirements in the RCM, to support the $25,064 in consultant retainer fees. The invoices provided by the consultant merely stated "retainer" or fees for professional services.

9

Consulting Charges

We disagree with the draft findings that $24,134 of consultant costs did not have adequate supporting documentation. We have provided the auditor with the related contract and all the invoices showing the services being provided and therefore, believe that this finding should be eliminated from the report.

State Comptroller's Comment - VOA-GNY did not provide sufficient documentation, consistent with the requirements in the RCM, to support the $24,134 in consultant costs.

Parent Agency Administration Costs

We disagree with the proposed disallowance of $340,663 of parent agency administration costs charged to the SED preschool cost-based programs. The auditor's stated position is that VOA-GNY did not provide the basis for the annual fee charged to VOA-GNY and did not provide documentation of the services VOA National provides to VOA-GNY as part of that annual fee. We have previously submitted to the auditor an explanation from our National Office of the basis of the National Fees charged to VOA-GNY along with a detailed description of the services provided.

As discussed with the auditor, the amount of VOA National fees charged to VOA-GNY are calculated based on a fixed percentage of the lower of the organization's actual revenue or the revenue cap for each year. This fixed percentage is not designed to cover all of VOA National's expenses. In fact, only 70% of VOA National's costs are charged to the affiliates. The revenue cap is designed to limit the charges to the larger affiliates, of which VOA-GNY is the largest. As discussed in the attached description of the National Fees, because of the revenue cap, the actual charges to VOA-GNY were less than 1% in each of the three years currently under examination (0.64% for 2013, 0.63% for 2014, and 0.62% for 2015).

The enclosed description of the Role of the National Organization provides specific descriptions of VOA National's work performed for the benefit of its affiliates. Along with VOA's branding, these services are some of the specific benefits of being part of the VOA network and therefore, justify the cost of the National Fees. This document provides an explanation of VOA National's work which provides complimentary services to each affiliate operating regionally. Each VOA affiliate, including VOA-GY, is assigned a geographic catchment area to serve clients; VOA-GNY currently operates in New York and Northern New Jersey. VOA National's work supports the services provided by VOA- GNY in its region but does not duplicate them.

It is important to understand that VOA National and VOA-GNY (and all other affiliates operating in regional catchment areas across the country) are separate and distinct operations and that no costs are duplicative. Each affiliate and VOA National has its own administrative supports, and the services provided as part of the National Fee are enhancements which are complementary to the services and supports performed by VOA-GNY; the services performed by VOA National are not performed by VOA-GNY.

As previously stated, VOA National receives only 70% of its support through fees to affiliates. The balance of its revenue comes from fundraising and grants. Those non-affiliate revenues provide the basis for VOA National's fundraising efforts and its spiritual and religious costs. It would also be too much of a cost burden to pass along the full cost of VOA National's services to its affiliates. Therefore, VOA National does not pass its financial development, fundraising, or religious costs to VOA-GNY, as it addresses these costs through its other non-affiliate revenue and charitable donations.

Based on the above, we believe that OSC should reconsider the aforementioned Draft Audit findings before issuing its final audit report, and should remove this finding that strikes at the foundational core of our heritage, our service excellence, and our ability to respond both nationally and regionally to serve where needed most. VOA-GNY benefits as an entity from the marketing, branding, professional services expertise, and general management training available to staff. We believe that this is an appropriate administrative expense and an overreach into the structure of VOA National and its affiliates. We believe that this finding should be removed.

State Comptroller's Comment - VOA-GNY did not provide sufficient documentation to support the parent agency administration allocation costs reported on its CFRs. Throughout the audit, VOA-GNY asserted that the parent agency administration allocation costs were the costs for services provided by VOA National (VOA). VOA-GNY maintained that, despite its affiliation with VOA, VOA-GNY is a separate, independent legal entity that is not managed, controlled, or owned by VOA. VOA-GNY also asserted that it cannot compel VOA to provide the accounting information requested by the auditors. Absent sufficient relevant information, we are unable to determine if the parent agency administration allocation costs allocated to VOA-GNY were reasonable, necessary, directly related to the special education program, and sufficiently documented pursuant to the RCM and CFR Manual.

Sincerely,

Tere Pettitt

Tere Pettitt
President & CEO

Enclosure: Role of the National Organization

c: Thomas Cordell, NYSED
Harold Matott, NYSED
Karla Ravida, NYSED

11