THOMAS P. DINAPOLI
COMPTROLLER

110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
**OFFICE OF THE STATE COMPTROLLER**

October 7, 2016

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

Ms. Terese Scofidio
Chief Executive Officer
Baker Victory Services
780 Ridge Road
Lackawanna, NY 14218

Re: Compliance With the Reimbursable
Cost Manual
Report 2015-S-57

Dear Ms. Elia and Ms. Scofidio:

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

## Background

Baker Victory is a not-for-profit organization located in Lackawanna, New York, that provides a range of community-based programs, including foster care, residential treatment, and counseling services. Additionally, Baker Victory is authorized by SED to provide preschool special education services to children with disabilities who are between the ages of three and five years. During the period July 1, 2013 through June 30, 2014, Baker Victory provided Preschool Special Class services, Preschool Integrated Special Class services, and Preschool Special Education Itinerant Teacher (SEIT) services (collectively referred to as the Programs) to about 500 students in Erie County. Baker Victory is managed by a Chief Executive Officer (CEO), who is overseen by a Board of Directors (Board), with 16 members.

The counties that use Baker Victory's preschool special education services pay tuition using reimbursement rates set by SED. The State, in turn, reimburses the counties 59.5 percent of the tuition that counties pay. SED sets the special education tuition rates based on financial information, including costs, reported by Baker Victory on the annual Consolidated Fiscal Reports (CFRs) 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 fiscal year ended June 30, 2014, Baker Victory reported approximately $6.9 million in reimbursable costs for the Programs on the CFR.

## Results of Audit

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 sufficiently documented. The RCM also requires special education providers to use fair and reasonable allocation methods, and to maintain documentation evidencing the methodologies and basis used to allocate costs. During the course of our audit, we identified several internal control deficiencies that Baker Victory must correct in order to improve its compliance with SED's requirements.

Our audit identified $155,303 in costs, comprising $85,736 in personal service costs and $69,567 in other than personal service (OTPS) costs, that were not in compliance with SED's requirements due to various reasons that included, but were not limited to: ineligible bonuses; compensation for work that was not related to the Programs; non-allowable public relations and advertising costs; undocumented costs; and ineligible donations, food, entertainment, and gift expenses.

We also determined Baker Victory did not maintain adequate documentation to support its allocated costs. Consequently, we could not confirm that all costs that Baker Victory allocated to the Programs were fair and reasonable. Based on our testing of $207,042 (of approximately $780,000) in allocated costs, we concluded that Baker Victory's cost allocation methodologies and the basis of the costs were not appropriately documented. Further, allocation methods conveyed to auditors were unclear and not reasonable.

We recommended that SED review the audit findings and, as warranted, make the necessary adjustments to the costs reported on Baker Victory's CFR and to Baker Victory's tuition reimbursement rates. We also recommended that Baker Victory take certain steps to improve the internal control structure within the organization to help ensure that costs reported on annual CFRs fully comply with SED's requirements.

### *Personal Service Costs*

For the fiscal year ended June 30, 2014, Baker Victory reported approximately $5.9 million in personal service and fringe benefit costs for the Programs. Of this amount, we identified $85,736 in costs that were not in compliance with SED's requirements due to various reasons, including: inappropriate bonuses, compensation for work that was not related to the Programs, non-allowable employment incentives, inappropriate deferred compensation benefits, and excess compensation.

*Bonuses and Other Ineligible Compensation*

The RCM defines bonuses as non-recurring and non-accumulating (i.e., not included in the base salary of subsequent years) lump sum payments to employees that are in excess of regularly scheduled salary and not directly related to hours worked. Bonus compensation may be reimbursed if it is based on merit as measured and supported by employee performance evaluations. In addition, the RCM requires costs identified on the CFR to be reasonable and necessary to the operation of a special education program. Expenses of a personal nature, including perks, are not reimbursable.

We identified $52,917 in bonuses and other ineligible compensation that Baker Victory reported on its CFR, as follows:

- $46,526 in bonus payments and fringe benefits to direct and non-direct care employees that were not based on merit. In particular, Baker Victory provided bonus compensation to employees based on the availability of funds, employee attendance, or employee referrals.
- $4,496 in unsupported wellness-type costs that were charged to the Programs.
- $1,895 in costs for incentives provided to employees to work on-call shifts. However, there were no on-call shifts for the Programs.

*Deferred Compensation*

The RCM provides guidance regarding executive compensation and benefits. The RCM requires that benefits, including pensions, for individual employees or officers/directors be proportionately similar to those received by other classes or groups of employees. We reviewed the compensation package for Baker Victory's CEO and identified $1,390 in deferred compensation contributions that was not offered to other employees.

*Compensation Beyond 1.0 Full-Time Equivalent for a Position*

The RCM states that compensation (i.e., salaries and fringe benefits) for an entity's staff whose function is that of Executive Director, Assistant Executive Director, or Chief Financial Officer should be consistent with the regional median compensation for comparable administrative job titles of public school districts, as determined and published annually by SED. Reimbursement of employee compensation for these job titles shall not exceed the median salaries paid to comparable personnel in regional public schools for similar work and hours of employment. In addition, compensation beyond 1.0 full-time equivalent (FTE) for non-direct care staff, owners, or related parties will not be considered reimbursable in the calculation of tuition rates.

We identified $8,504 in excess compensation costs that Baker Victory paid to its employees, as follows:

- $4,546 in excess compensation for two employees reported in one CEO title. Baker Victory reported a total of 1.11 FTEs for two employees in the title. As a result, the total compensation for the CEO title exceeded the total median compensation allowance for the region. (Note: Prior to the audit, SED made median salary adjustments to the tuition rates established for the Programs.)
- $3,958 in salary costs for eight administrative employees with reported time in excess of 1.0 FTE each.

*Compensation for Service Coordinator (Medicaid)*

The CFR Manual provides a list of position titles and codes, and indicates positions that are specific to the SED programs. According to the CFR Manual, the title "Service Coordinator Medicaid (OPWDD only)," title code 351, is not an SED program position. We determined Baker Victory improperly claimed salary expenses of $22,925 (including fringe benefits and pension costs) for an employee whose title and job description was Service Coordinator Medicaid (OPWDD only), which is not applicable to the SED programs.

***Other Than Personal Service Costs***

For the fiscal year ended June 30, 2014, Baker Victory reported about $1 million in OTPS costs for the Programs. Of this amount, we identified $69,567 in costs that were not in compliance with SED's requirements due to various reasons, including: non-allowable public relations and advertising costs; insufficiently documented costs; and ineligible donations, food, entertainment, gifts, and other expenses.

*Advertising and Public Relations*

The RCM states that outreach activities such as publications and other public relations endeavors that describe the services offered by approved private schools, which enables them to better contribute to community educational objectives, are reimbursable. The intended outcome of these publications and public relations endeavors should be that of providing information and not for the purpose of recruiting students into programs or soliciting fundraising monies or donations. We identified $53,053 for public relations and advertising costs that were either not supported, not allowed, or not directly related to the Programs.

*Ineligible, Unreasonable, and Inadequately Documented Costs*

According to the RCM, costs are reimbursable provided such costs are reasonable, necessary, directly related to the special education program, and properly documented. Items such as gifts, charitable donations, and costs for food and beverages for employees, consultants, or Board members are not reimbursable. Also, brochures, agendas, or other literature that verify attendance and document the purpose of conferences or meetings are also required. We identified $14,849 in costs that were unsupported or were for inappropriate expenses, as follows:

- $6,089 for expenses that were inadequately documented and/or not supported by invoices, including payments to clubs, membership dues, and consulting services.
- $4,446 in charitable donations.
- $1,938 for food and entertainment provided to staff, Board members, and consultants.
- $1,002 for training costs that were inadequately documented, including a lack of documentation of the individuals who attended the training and what the training was for.
- $762 for gifts provided to staff, including door prizes and Zumba exercise classes.
- $542 for expenditures not related to the Programs.
- $70 for credit card reward fees.

*Vehicle and Travel Expenses*

According to the RCM, vehicle and travel costs, such as fuel, repairs, mileage, and hotel stays, are reimbursable if they are supported by vehicle and travel logs that document both their use by the funded program and the costs incurred. The logs should include the date, time of travel, destinations, mileage, and purpose of the travel. We identified $1,665 for vehicle and travel expenses that were not supported by the required detailed logs, as follows:

- $766 in vehicle expenses for a vehicle used by the former CEO for which vehicle logs were not maintained.
- $744 for mileage expenses that were not supported by detailed travel logs.
- $155 for vehicle expenses that lacked the necessary vehicle logs or were not Program-related.

*Allocated Costs, Related Controls, and Board Governance*

Expenditures that cannot be directly charged to a specific program must be allocated across all programs and/or entities that benefit from those expenditures. The RCM requires special education providers to use fair and reasonable allocation methods, and to maintain documentation evidencing the methodologies and basis used to allocate costs to the various programs they operate. Allocation methods and the basis used to calculate the allocation percentages must be documented and retained for a minimum of seven years.

However, we determined Baker Victory did not maintain sufficient documentation to support its cost allocations. As a result, we could not confirm that all costs that Baker Victory allocated to the Programs were fair and reasonable. We conducted comprehensive testing of three of approximately 100 allocation methodologies that Baker Victory used to allocate $207,042 of approximately $782,000 in allocated costs. We found that Baker Victory lacked documentation that sufficiently described the allocation methodologies and the basis for allocating costs. Also, the allocation methodologies that officials communicated to auditors were unclear and confusing, and source documents, upon which allocations were purportedly based, either could not be located or were incomplete. Details of the three allocations we reviewed are presented in the following narratives.

We reviewed the percentages used to allocate $114,227 in salary and associated fringe benefit expenses to the Programs for two Program Directors who oversaw Baker Victory's various early childhood programs. According to Baker Victory staff, the percentages were based on a time study of one of the Program Directors and on the units of service of therapists who worked in the same locations as these two Program Directors. However, Baker Victory was unable to provide supporting documentation of the time study or the units of service used in the allocation processes. Further, the percentages were applied to the staff who purportedly worked for the Program Directors; however, Baker Victory was unable to confirm which employees worked in the Program Directors' departments. As a result, we could not identify or verify the specific amounts allocated for these employees.

We also selected $75,545 in allocated maintenance costs for review and determined the allocations were insufficiently documented and the methods used to determine the allocation percentage were not reasonable. Baker Victory provided a written allocation methodology for this overhead cost, but the documentation was incomplete. Consequently, we were unable to determine how the allocation was determined. When we asked Baker Victory staff how certain amounts were determined using their established written methodology, they too were unable to follow the instructions. In addition, several maintenance work orders, which supported the maintenance allocation percentage, were blank and did not detail the actual maintenance work performed.

Baker Victory also allocated $17,270 in various other OTPS costs (including, but not limited to, cell phones, furniture, and repairs) based on the aforementioned time study and units of service. However, as previously noted, officials were unable to document that time study and the units of service. Further, officials could not explain why allocations of these OTPS costs were based on a time study of a Program Director's activities, which was otherwise used to allocate personal service costs. The relationship of the OTPS costs to the time study is unclear.

We met with Baker Victory officials, as well as the independent CPA responsible for certifying Baker Victory's 2013-14 CFR, to discuss our concerns regarding the allocation methodologies. According to the CPA, she also identified errors in the allocation process and advised Baker Victory of these problems via memos sent in February 2013 and again in January 2015. According to the memos, the CPA recommended a review of all of Baker Victory's allocations and that Baker Victory formally document the methodologies that were used. The CPA also advised our auditors that these problems did not prompt the need for a management letter to the Board pertaining to Baker Victory's Consolidated Financial Statements, nor did the CPA express any concerns regarding Baker Victory's compliance with regulations set forth by the funding agencies that require CFR filing. Further, the memos were received only by Baker Victory's former Chief Financial Officer (CFO), and according to Baker Victory's CEO, the former CFO never communicated the CPA's concerns to the CEO or the Board. In addition, the former CFO never took action to address the concerns raised by the CPA.

We attributed these problems to breakdowns in Baker Victory's internal controls. The deficiencies identified by the CPA should have been communicated to the CEO and the Board. The fact that the CEO and the Board were unaware of these problems indicates Baker Victory did not have the necessary procedures and protocols in place to ensure that pertinent information was identified and communicated to officials in a form and within a time frame to help them adequately carry out their responsibilities. In addition, the Board has a fiduciary responsibility to exercise due care and diligence in safeguarding the organization's assets, including promoting good internal control practices that ensure management is effective. The fact that the Board was unaware of the deficiencies identified by the CPA further indicates that improvements are needed in Baker Victory's internal control structure.

Such improvements would entail strengthening the overall attitude toward, and leadership in, the promotion of strong and necessary controls to help ensure Baker Victory fully complies with the RCM. In particular, Baker Victory officials should ensure appropriate allocation methodologies are used and supporting documentation for claimed expenses is maintained. Baker Victory officials should also establish policies and procedures that will help ensure pertinent information is communicated to the proper levels of management and the Board.

During the audit, Baker Victory hired an interim CFO. Also, as a result of our audit, Baker Victory hired a new CPA to review Baker Victory's allocated costs. Further, the CPA and Baker Victory officials began taking steps to verify the propriety of allocation methodologies and properly document those methodologies going forward.

## Recommendations

**To SED**:

1. Review the audit findings identified by our audit and, as warranted, make the necessary adjustments to the costs reported on Baker Victory's CFR and to Baker Victory's tuition reimbursement rates.

2. Remind Baker Victory officials of the pertinent SED guidelines that relate to the deficiencies we identified.

**To Baker Victory**:

3. Take steps to improve the internal control structure within the organization. At a minimum, this should include maintaining required supporting documentation for all claimed expenses, including allocated costs, and establishing policies and procedures that will help ensure the proper levels of management and the Board have all the information they need to carry out their functional responsibilities.

4. Ensure that all 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 costs that Baker Victory reported on its CFR for the fiscal year 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 and assess internal controls related to our objective, we reviewed the RCM that applied to the year we examined as well as the CFR Manual and its related appendices. We became familiar with Baker Victory's internal controls as they related to costs it reported on the CFR. We also interviewed personnel to obtain an understanding of the practices for reporting costs on the CFR. We reviewed Baker Victory's CFR for the fiscal year ended June 30, 2014 as well as its audited financial statements for this period. We obtained accounting records and supporting information to assess whether certain costs claimed by Baker Victory on the CFR that were considered high risk and reimbursable in limited circumstances (such as food and gifts) 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.

## Reporting Requirements

We provided a draft copy of this report to SED and Baker Victory officials for their review and formal comment. We considered their comments in preparing this report and have included them in their entirety at the end of it. In their response, SED officials agreed with the audit recommendations and indicated the actions they will take to address them. Baker Victory officials generally agreed with the audit findings, but challenged certain aspects of our findings related to personal service costs, OTPS costs, and Baker Victory's cost allocations. Our rejoinders to those 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.

Major contributors to this report were Dave Fleming, Ed Durocher, Jennifer Habib, Jennifer Bordoni, and Bruce Brimmer.

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

Sincerely,

Andrea Inman
Audit Director

cc: Suzanne Bolling, Director of Special Education Fiscal Services, SED
Thalia Melendez, Director – Office of Audit Services, SED

# 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 19, 2016

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 (SED) response to the draft audit report, 2015-S-57, Compliance with the Reimbursable Cost Manual: Baker Victory Services (Baker Victory).

In addition to the actions that will be taken in response to the specific recommendations described below, SED will closely examine the circumstances that led to the findings contained in the audit report with particular attention to the findings related to "Allocated Costs, Related Controls, and Board Governance." This examination will include an assessment of the programmatic oversight and fiscal management employed at Baker Victory and will be a factor in the consideration of the continued approval of this provider and the corrective action or enforcement actions that may be warranted.

**Recommendation 1:**

Review the audit findings identified by our audit and, as warranted, make the necessary adjustments to the costs reported on Baker Victory's CFR and to Baker Victory's 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 Baker Victory officials of the pertinent SED guidelines 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 Baker Victory 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 both in person, at one of the six locations it is offered across the State, and 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. At the direction of the Board of Regents, the Department intends to require that this training be mandatory and will require individuals to verify that they have completed the training.

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

Sincerely,

Sharon Cates-Williams

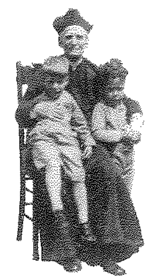
Sharon Cates-Williams

c: Christopher Suriano
Suzanne Bolling
Monica Short

# Agency Comments - Baker Victory Services

BAKER VICTORY SERVICES
*Continuing Father Baker's Legacy of Caring*
780 Ridge Road Lackawanna, NY 14218
(716) 828-9500 • 1-888-BVS-1160 • www.bakervictoryservices.org

Rev. Msgr. Paul J.E. Burkard, *President*
Terese M. Scofidio, *Chief Executive Officer*



*Via Overnight Delivery*

September 7, 2016

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

Re: Compliance with the Reimbursable Cost Manual
Baker Victory Services - Report 2015-S-57

Dear Ms. Inman:

Please accept this letter as Baker Victory Services' (Baker Victory) response to the above-referenced Draft Audit Report reviewing Baker Victory's Consolidated Fiscal Report (CFR) for the period July 1, 2013 through June 30, 2014. We would like to thank the auditors from Office of State Comptroller (OSC) for their cooperation with Baker Victory's staff in completion of their audit. Although there are a number of findings that we agree with, there are other findings that we do not. We have provided Baker Victory's response to each of your findings and for those findings with which we do not agree, we have provided specific reasons for our disagreement. Baker Victory reserves all of its rights and interests in this matter and nothing in this letter shall operate or be construed as a waiver of any of Baker Victory's rights or interests to challenge findings issued by OSC or rate adjustments made by the New York State Department of Education pursuant to OSC's findings or to otherwise exercise its legal and equitable rights. The findings of your office and our responses are set forth below in the order presented in the Draft Audit Report.

I. <u>Personal Service Costs</u>

A. <u>Bonuses and Other Ineligible Compensation</u>

**OSC Draft Audit Statement:** The RCM defines bonuses as non-recurring and non-accumulating (i.e., not included in the base salary of subsequent years) lump sum payments to employees

Behavioral/Mental Health Residential Services • Behavior/Mental Health Outpatient Services
Services for the Developmentally Disabled • Special Education Services

Baker Victory Services is a Certified Sanctuary Model© treatment provider.

that are in excess of regularly scheduled salary and not directly related to hours worked. Bonus compensation may be reimbursed if it is based on merit as measured and supported by employee performance evaluations. In addition, the RCM requires costs identified on the CFR to be reasonable and necessary to the operation of a special education program. Expenses of a personal nature, including perks, are not reimbursable.

**Finding:** Baker Victory paid bonuses to direct and non-direct care employees that were not based on merit. Bonuses were paid to employees based on availability of funds, employee attendance, and employee referrals. The total inappropriate bonus payments including fringe benefits is $46,526.

**Management Response:** We agree with this finding. Baker Victory is developing and implementing policies and procedures to ensure that any one time payments to employees are based on merit and appropriately documented. In addition, Baker Victory has developed and implemented an approval process that will ensure that any additional compensation payments meet the criteria for allowable costs in the Reimbursable Cost Manual (RCM). Any payments that do not meet the requirements for allowable compensation will be reported as unallowable costs.

**Finding:** Baker Victory paid $13,770 in health and wellness incentives, including fringe benefits to employees to use toward gym memberships and classes. In addition, Baker Victory expensed $4,496 in wellness distributions.

**Management Response:** We disagree with the finding regarding wellness payments paid to employees in the amount $13,770 as being an unallowable cost. This was not additional compensation paid to employees to join a gym or social club. Rather, it was a rebate of health insurance premiums paid by individual employees for their participation in Baker Victory's Wellness Program. To qualify for this rebate, the employee must have been covered under the Baker Victory's health insurance plan, completed a health evaluation test and met certain goals related to his/her Health Index Score. The stated purpose of this program was to reduce overall health insurance costs to Baker Victory. We have attached **Exhibits I and II** which describe the Wellness Program and the employee groups at Baker Victory that were eligible to participate in it. It is our opinion that this is a rebate of an employee's health insurance premium paid by the employee which constitutes an allowable expense for purposes of Preschool cost reimbursement.

*
Comment
1

**Finding:** Baker Victory submitted costs for incentives provided to employees to work on-call shifts. However, there are no on-call shifts for the Pre-school Programs. The total disallowance for inappropriate incentive payments, including fringe benefits is $1,895.

**Management Response:** We agree with this finding. These payments related to specific staff being on-call on weekends and after business hours. Although these charges were reasonable

*See State Comptroller Comments, Page 30.

and necessary business expenses of Baker Victory, they primarily relate to administrative and clinical oversight for its 24 hour per day operating sites and not its Preschool Programs. Management has implemented a new process that limits the costs of additional compensation for on-call administrative and clinical oversight to its 24 hour per day operating sites.

**B. Deferred Compensation**

**OSC Draft Audit Statement:** The RCM provides guidance regarding executive compensation and benefits. The RCM requires that benefits, including pensions, for individual employees or officers/directors be proportionately similar to those received by other classes or groups of employees.

**Finding:** We reviewed the compensation package for Baker Victory's CEO and identified $1,390 in deferred compensation contribution that was not offered to all employees.

**Management Response:** We agree with this finding. In accordance with the RCM, Supplemental Executive Retirement Plans (SERP) have been deemed to be nonqualified plans by the IRS; therefore, they are not reimbursable. Management has implemented a process to ensure that employer contributions to the SERP are reported as non-allowable costs on future CFRs.

**C. Compensation Beyond 1.0 Full-Time Equivalent for a Position**

**OSC Draft Audit Statement:** The RCM states that compensation (i.e., salaries and fringe benefits) for an entity's staff whose function is that of Executive Director, Assistant Executive Director, or Chief Financial Officer should be consistent with the regional median compensation for comparable administrative job titles of public school districts, as determined and published annually by SED. Reimbursement of employee compensation for these job titles shall not exceed the median salaries paid to comparable personnel in regional public schools for similar work and hours of employment. In addition, compensation beyond 1.0 full-time equivalent (FTE) for non-direct care staff, owners, or related parties will not be considered reimbursable in the calculation of tuition rates.

**Finding:** We identified $8,518 in excess compensation costs that Baker Victory paid to its employees, as follows:

* Comment 2

- $4,560 in excess compensation for two employees reported in one CEO title. Baker Victory reported a total of 1.11 FTEs for two employees in the title. As a result, the total compensation for the CEO title exceeded the total median compensation allowance for the region. (Note: Prior to the audit, SED made median salary adjustments to the tuition rates established for the Programs.)
- $3,958 in salary costs for eight administrative employees with reported time in excess of 1.0 FTE each.

**Management Response:** We agree with the finding that Compensation for Personal Services (4)(b) non-direct care will only be included up to 1.0 FTE in the tuition rate. With respect to the 1.11 FTEs for two employees reported as "Baker Victory CEO" (Position Code 601) in the amount $4,560, we also agree with the finding. However, it is important to note that the additional 0.11 FTE was the result of a short transition period during which the outgoing CEO and the incoming CEO worked together to provide continuity of leadership to the organization. With respect to the $3,598 charged to the Preschool Programs for a portion of the eight Agency administrative employees identified in excess of 1.0 FTE, we agree that this is an unallowable cost. Baker Victory's Management has implemented a process to identify administrative staff that work more than 1.0 FTE to ensure that compensation greater than 1.0 FTE for its SED programs are reported as non-allowable costs.

D. <u>Compensation for Service Coordinator</u>

**Finding:** The CFR Manual provides a list of position titles and codes, and indicates positions that are specific to the SED programs. According to the CFR Manual, the title "Service Coordinator Medicaid (OPWDD only)," title code 351, is not an SED program position. We determined Baker Victory improperly claimed salary expenses of $22,925 (including fringe benefits and pension costs) for an employee whose title and job description was Service Coordinator Medicaid (OPWDD only), which is not applicable to the SED programs.

**Management Response:** We disagree with this finding. This employee's salary expenses of $22,925, including fringe benefits and pension costs were not reported in the expenses of the Preschool Programs. We have attached a detailed reconciliation that shows where the employee's salary expenses were reported on the 2014 CFR **(Exhibit III)**. The employee was a social worker who was incorrectly classified in the payroll records as a Medicaid Service Coordinator. This employee provided routine social work (positon Code 325) in the SED Early Intervention Program (9300). As shown in Exhibit III, the employee was not charged to the Preschool Programs (9100 through 9165). Rather, she was charged to the Early Intervention Program. We understand how the complicated worksheet of the CFR accountant may have led to this finding. Management has implemented a process to ensure that position codes for staff are reviewed on an annual basis for appropriate classification in accordance with the CFR Appendix R and that individuals are charged to the proper cost programs.

*
Comment
3

II. <u>Other Than Personal Service Costs</u>

A. <u>Advertising and Public Relations</u>

**OSC Draft Audit Statement:** The RCM states that outreach activities such as publications and other public relations endeavors that describe the services offered by approved private schools, which enables them to better contribute to community educational objectives, are reimbursable. The intended outcome of these publications and public relations endeavors should be that of providing information and not for the purpose of recruiting students into programs or soliciting fundraising monies or donations.

**Finding:** We identified $53,053 for public relations and advertising costs that were either not supported, not allowed, or not directly related to the Programs.

**Management Response:** We agree with the finding regarding public relations and advertising costs in the amount of $53,053. The majority of these expenditures relate to public relations with a closely allied entity. Historically, the costs incurred by the closely allied entity were shared with Baker Victory pursuant to an informal agreement which used a historical percentage of total costs incurred which were billed to Baker Victory. These costs were reported as Agency administration costs and allocated to different programs using the ratio value method in the CFR software. Management will report public relations costs charged by the closely allied entity as non-allowable costs on Baker Victory's CFR. The advertising costs cited lacked adequate documentation to support community educational objectives. Management has implemented procedures to require that such documentation be maintained, and in the absence of such documentation, such costs will be reported as non-allowable on the CFR.

**B. Ineligible, Unreasonable, and Inadequately Documented Costs**

**OSC Draft Audit Statement:** According to the RCM, costs are reimbursable provided such costs are reasonable, necessary, directly related to the special education program, and properly documented. Items such as gifts, charitable donations, and costs for food and beverages for employees, consultants, or Board members are not reimbursable. Also, brochures, agendas, or other literature that verify attendance and document the purpose of conferences or meetings are also required.

**Finding:** We identified $14,849 in costs that were unsupported or were for inappropriate expenses, as follows:

- $6,089 for expenses that were inadequately documented and/or not supported by invoices, including payments to clubs, membership dues, and consulting services.
- $4,446 in charitable donations.
- $1,938 for food and entertainment provided to staff, Board members, and consultants.
- $1,002 for training costs that were inadequately documented, including a lack of documentation of the individuals who attended the training and what the training was for.
- $762 for gifts provided to staff, including door prizes and Zumba exercise classes.
- $542 for expenditures not related to the Programs.

- $70 for credit card reward fees.

**Management Response:** We agree with the findings regarding the costs listed above except for the training costs in the amount of $1,002 which Baker Victory has sufficient supporting documentation. The disputed costs relate to required training by the vendor of Baker Victory's payroll software application for users of the software. Management believes it has sufficient documentation to support this expense, including the announcement of the scheduled training, names of attendees, and the training materials. Management is in the process of developing and implementing procedures that require significantly more supporting documentation for the costs of clubs, membership dues and consulting services.

*
Comment
4

As for the other costs listed above, Management has a developed a process to identify those costs that are non-allowable costs for SED reporting purposes and report them as such on the appropriate lines on the CFR. However, it should be noted that certain costs that are non-allowable under the cost reimbursement rules of the New York State Department of Education are allowable costs under the cost reimbursement rules of the New York State Office For Persons With Developmental Disabilities (OPWDD) and Office of Mental Health (OMH). By way of example, food costs for staff and board meetings are allowable costs under OPWDD and OMH cost reporting rules and as such, we will continue to report them as allowable costs.

C. <u>Vehicle and Travel Expenses</u>

**OSC Draft Audit Statement:** According to the RCM, vehicle and travel costs, such as fuel, repairs, mileage, and hotel stays, are reimbursable if they are supported by vehicle and travel logs that document both their use by the funded program and the costs incurred. The logs should include the date, time of travel, destinations, mileage, and purpose of the travel.

**Finding:** We identified $1,665 for vehicle and travel expenses that were not supported by the required detailed logs, as follows:

- $766 in vehicle expenses for a vehicle used by the former CEO for which vehicle logs were not maintained.
- $744 for mileage expenses that were not supported by detailed travel logs.
- $155 for vehicle expenses that lacked the necessary vehicle logs or were not Program-related.

**Management Response:** Management agrees with this finding. Management is implementing appropriate policies and detailed travel logs that adequately demonstrate business mileage and purpose of trip, including logs for Baker Victory owned vehicles. The policies will also include a reasonable review and approval process. In addition, the current CEO does not have a Baker Victory owned vehicle for personal use.

## III. Allocated Costs, Related Controls, and Board Governance

**OSC Draft Audit Statement:** Expenditures that cannot be directly charged to a specific program must be allocated across all programs and/or entities that benefit from those expenditures. The RCM requires special education providers to use fair and reasonable allocation methods, and to maintain documentation evidencing the methodologies and basis used to allocate costs to the various programs they operate. Allocation methods and the basis used to calculate the allocation percentages must be documented and retained for a minimum of seven years.

However, we determined Baker Victory did not maintain sufficient documentation to support its cost allocations. As a result, we could not confirm that all costs that Baker Victory allocated to the Programs were fair and reasonable. We conducted comprehensive testing of three of approximately 100 allocation methodologies that Baker Victory used to allocate $207,042 of approximately $782,000 in allocated costs. We found that Baker Victory lacked documentation that sufficiently described the allocation methodologies and the basis for allocating costs. Also, the allocation methodologies that officials communicated to auditors were unclear and confusing, and source documents, upon which allocations were purportedly based, either could not be located or were incomplete. Details of the three allocations we reviewed are presented in the following narratives.

**Management Response:** Baker Victory is a very large organization which provides an array of health care and human services to individuals and their families who need such services. Since these services are regulated by numerous State and Federal oversight agencies, Baker Victory has developed its program management, quality improvement, maintenance and information technology systems to satisfy the vast number of regulatory requirements and successfully operate these programs. To effectively operate an organization the size of Baker Victory, there are significant costs that need to be shared between and among its many programs. As such, the need to use multiple cost allocation methodologies is not unusual. The former Chief Financial Officer (CFO) and his staff developed cost allocations for staff positions, other than personal services, using the CFR Appendix J as a guide. Although Baker Victory did not use the prescribed allocation methods set forth in Appendix J to allocate shared costs in all instances, the methods used were reasonable and consistently applied. Thus, the shared costs that were allocated to the Preschool Programs and reported on the 2013-14 CFR were reasonable and appropriate.

*
Comment
5

### A. Salary and Associate Fringe Benefits

**Finding:** We reviewed the percentages used to allocate $114,227 in salary and associated fringe benefit expenses to the Programs for two Program Directors who oversaw Baker Victory's various early childhood programs. According to Baker Victory staff, the percentages were based on a time study of one of the Program Directors and on the units of service of therapists who worked in the same locations as these two Program Directors. However, Baker Victory was unable to provide supporting documentation of the time study or the units of service used in the allocation processes. Further, the percentages were applied to the staff who purportedly worked for the Program Directors; however, Baker Victory was unable to confirm which employees worked in the Program Directors' departments. As a result, we could not identify or verify the specific amounts allocated for these employees.

**Management Response:** Management agrees with this finding insofar as the Agency did not maintain adequate time studies for the one Program Director as outlined in CFR Appendix L. The allocation of the other Director using staff FTEs has been accepted by other New York State agencies (i.e. OPWDD) as an acceptable methodology to allocate certain program administrative positions.

As shown on the attached **Exhibit IV**, we compared the program staff FTE percentages as a total of the staff FTEs in the programs where the Programs Directors' salaries were reported on CFR 4. As shown on Exhibit IV, the percentage difference between the percentage of Program Directors' salaries reported on CFR 4 by program and the percentage of staff FTEs reported for those programs is relatively minor. Therefore, Management believes that the amount reported and allocated to each program on the CFR 4 for these two Program Directors is fair and reasonable.

*
Comment
6

Management is in the process of reviewing the allocation methodologies of employees who are shared with multiple programs to determine the most appropriate allocation methodology to use, including whenever possible, direct charging the employee's salary based on actual time incurred to the multiple programs where the employee worked. Management will implement all changes to the allocation methodologies during the first quarter of fiscal 2017.

**B. Maintenance Costs**

**Finding:** OSC auditors also selected $75,545 in allocated maintenance costs for review and determined the allocations were insufficiently documented and the methods used to determine the allocation percentage were not reasonable. Baker Victory provided a written allocation methodology for this overhead cost, but the documentation was incomplete. Consequently, we were unable to determine how the allocation was determined. When we asked Baker Victory staff how certain amounts were determined using their established written methodology, they too were unable to follow the instructions. In addition, several maintenance work orders, which supported the maintenance allocation percentage, were blank and did not detail the actual maintenance work performed.

**Management Response:** Management disagrees with this finding. The methodology is based on actual work performed based on job tickets that are maintained by the Maintenance Management System. Although complex, we believe that the methodology is reasonable and has been consistently applied. Management is currently in the process of reviewing the Maintenance Management System to determine what steps need to be implemented to ensure that all jobs performed by Maintenance Department staff are properly requested, completed

*
Comment
7

and documented. The procedures will include a review and approval process of requested and completed jobs.

### C. Other Than Personal Services' Costs

**Finding:** Baker Victory also allocated $17,270 in various other OTPS costs (including, but not limited to, cell phones, furniture, and repairs) based on the aforementioned time study and units of service. However, as previously noted, officials were unable to document that time study and the units of service. Further, officials could not explain why allocations of these OTPS costs were based on a time study of a Program Director's activities, which was otherwise used to allocate personal service.

**Management Response:** We disagree with this finding. The methodology used was based on the two Program Directors' salary cost allocations and is a reasonable alternative allocation methodology for OTPS costs that are directly related to staff who are shared by multiple programs. These costs were directly related to those staff in the performance of their responsibilities.

* Comment 8

Management is currently reviewing all of its allocations used for its OTPS costs to determine if there is a more appropriate allocation to be used for each type of expenditure. In addition, Baker Victory is confirming the accuracy of the base of measure used in the allocation methodologies. If necessary, Baker Victory will make adjustments to its cost allocation methodologies for OTPS costs in the first quarter of fiscal 2017.

### D. Related Controls and Governance

**OSC Draft Audit Statement:** We met with Baker Victory officials, as well as the independent CPA responsible for certifying Baker Victory's 2013-14 CFR, to discuss our concerns regarding the allocation methodologies. According to the CPA, she also identified errors in the allocation process and advised Baker Victory of these problems via memos sent in February 2013 and again in January 2015. According to the memos, the CPA recommended a review of all of Baker Victory's allocations and that Baker Victory formally document the methodologies that were used. The CPA also advised our auditors that these problems did not prompt the need for a management letter to the Board pertaining to Baker Victory's Consolidated Financial Statements, nor did the CPA express any concerns regarding Baker Victory's compliance with regulations set forth by the funding agencies that require CFR filing. Further, the memos were received only by Baker Victory's former Chief Financial Officer (CFO), and according to Baker Victory's CEO, the former CFO never communicated the CPA's concerns to the CEO or the Board. In addition, the former CFO never took action to address the concerns raised by the CPA.

We attributed these problems to breakdowns in Baker Victory's internal controls. The deficiencies identified by the CPA should have been communicated to the CEO and the Board.

The fact that the CEO and the Board were unaware of these problems indicates Baker Victory did not have the necessary procedures and protocols in place to ensure that pertinent information was identified and communicated to officials in a form and within a time frame to help them adequately carry out their responsibilities. In addition, the Board has a fiduciary responsibility to exercise due care and diligence in safeguarding the organization's assets, including promoting good internal control practices that ensure management is effective. The fact that the Board was unaware of the deficiencies identified by the CPA further indicates that improvements are needed in Baker Victory's internal control structure.

Such improvements would entail strengthening the overall attitude toward, and leadership in, the promotion of strong and necessary controls to help ensure Baker Victory fully complies with the RCM. In particular, Baker Victory officials should ensure appropriate allocation methodologies are used and supporting documentation for claimed expenses is maintained. Baker Victory officials should also establish policies and procedures that will help ensure pertinent information is communicated to the proper levels of management and the Board. During the audit, Baker Victory hired an interim CFO. Also, as a result of our audit, Baker Victory hired a new CPA to review Baker Victory's allocated costs. Further, the CPA and Baker Victory officials began taking steps to verify the propriety of allocation methodologies and properly document those methodologies going forward.

**Management Response:** Baker Victory's Executive Management and Board are committed to strong and necessary internal controls to ensure that Baker Victory complies with the CFR Manual and the RCM in completing its annual CFR.

As the OSC stated in its findings, there was a lack of communication from the former CPA auditor to the CEO and the Board regarding significant deficiencies in internal controls and errors the former independent CPA auditor had noted during its audits of the Baker Victory's financial statements and CFR. Baker Victory reasonably assumed that its independent auditor would discharge its obligation to the Board by directly reporting such deficiencies and errors to the Board and CEO, particularly in instances when recommendations were obviously being ignored by the former CFO.

Since becoming aware of the errors noted above and the deficiencies in internal controls through the OSC audit process, the CEO and the Board of Baker Victory have taken extraordinary steps to strengthen and promote internal controls over financial and regulatory reporting. Such actions include the following:

- The immediate termination of its Chief Financial Officer.
- The hiring of a new Chief Financial Officer who has both the required professional experience and educational background needed to lead the Finance

Department.

- The termination of the independent audit firm.

- The hiring of a new independent audit firm by the Audit Committee that is known to have the expertise required in federal and state regulatory reporting for health and human service organizations.

- The resubmission of its 2014-15 CFR to ensure the errors noted above were corrected in the final CFR.

- An analysis of the Finance Department's staffing needs and replacement of staff where necessary to ensure significant improvement in internal controls over financial and regulatory reporting.

- An analysis of existing accounting policies and procedures and development and implementation of formal policies to ensure strong internal controls over financial and regulatory reporting.

- The imposition of a requirement by the Audit Committee that all correspondence regarding the audit engagement be transmitted directly between the Audit Committee and the independent audit firm.

- The development of a CFR Committee that is responsible for the implementation and monitoring of Baker Victory's internal controls over the CFR preparation. The Committee is made up management staff from programs, corporate compliance, administration and finance.

- Development and implementation of additional training for the Board on oversight of financial and regulatory reporting.

Such actions demonstrate the CEO's and Board's exceptional attitude and leadership in the promotion of strong and sound internal controls over the Agency's financial and regulatory reporting. The OSC audit has identified features of the internal controls which Baker Victory is changing to further enhance and strengthen its internal control environment.

Thank you for consideration of our response. If you should have any questions, please contact me at your convenience either by email at tscofidio@bakervictoryservices.org or by phone at (716) 828-9570.

Very Truly Yours,

Terese M. Scofidio
Chief Executive Officer

cc: Rev. Msgr. Paul Burkard, Chairman of Board
Mr. John O'Brien, Chairman of Audit Committee
Audit Committee
Ms. Laurel B. Parzych, Chief Financial Officer
Ms. Mary Ellen Elia, Commissioner NYSED
Ms. Suzanne Bolling, Director of Special Education Fiscal Services, NYSED
Ms. Thalia Melendez, Director Audit Services, NYSED

12466662.1

Exhibit I

Your Health is Real Wealth

## Register for Your Health Evaluation and Earn Rewards!

Baker Victory Services has partnered with Interactive Health to deliver an enhanced wellness program that makes healthy living fun and rewarding. The program is available to insured employees and insured spouses.

### Earn Rewards

Don't miss out on this exciting opportunity to maximize your wellness program benefits! Participate in the health evaluation and achieve your personal health goal so you and your participating spouse will earn a monthly rebate of insurance contributions.

### Sign-Up Today

Register for your free, onsite preventive health evaluation, which includes a health assessment, blood pressure screening and a comprehensive blood test that evaluates your risk for:

- cardiovascular disease
- diabetes
- liver and kidney disease
- anemia
- ...and much more – all in less than 20 minutes!

### There is no cost to you for the health evaluation

**HEALTH EVALUATION LOCATION**

**The week of January 11th – 15th**

Health evaluations are by appointment

Please schedule by Wednesday, January 6th

| | |
|---|---|
| **790 Ridge Admin Building** | **Mon. 1/11 – Fri. 1/15** 6:30am – 11:30am |
| **Baker Academy** | **Mon. 1/11** 7:00am – 10:00am |
| **Early Childhood Program** | **Tue. 1/12** 7:00am – 12:00pm |
| **Behavioral Health Admin** | **Wed. 1/13** 7:00am – 12:00pm |
| **Monarch Little Leaners** | **Thur. 1/14** 6:45am – 12:00pm |

*Schedule your appointment and complete your health assessment online; turn over for details!*

## How to Schedule Your Onsite Health Evaluation Appointment

1. Register online at www.myinteractivehealth.com. First time website users can register using sponsor code VP7WL
2. Click the "Schedule Your Health Evaluation" box at the top of the page
3. Confirm your Personal information to proceed to the schedule.
4. Select your appointment location, date and time and complete your health assessment. Health plan members should have their insurance cards ready.
5. Continue until you are prompted to confirm your appointment.
6. Save time at your appointment by completing the Health Assessment online.
7. Send your lab results **directly to your physician**. Provide your physician's name, fax and phone number when you register for your health evaluation.

You may also schedule your appointment by calling Interactive Health at (800) 840-6100 between 8:00 AM and 6:00 PM Central Time.

*Your results are 100% confidential and will not be shared with your employer*

### You will need to *Fast* before your appointment

Please fast for 12 hours before your test. Drink plenty of plain water – no food or other beverages. If you are diabetic, pregnant, on medication, or have a medical condition that will prevent you from fasting 12 hours, please follow your doctor's instructions regarding fasting.

### Unable to attend onsite? Participate at a nearby lab!

You may select a lab location when you register online. Or call Interactive Health at (800) 840-6100 and ask to Test at a Lab. Interactive Health will mail you the paperwork and instructions you will need to go to a lab facility. **Please do not go to the lab until you receive this packet.** If you use this option, please go online or call by 1/15 and complete the testing no later than January 29, 2016.

### Unable to meet your health goals?

Incentives under this wellness program are available to all eligible employees. If you are unable to meet your health goals that are required for you to earn an incentive under this wellness program, you may qualify for an opportunity to earn the same incentive through an alternative course of action (that, if you wish, will be developed with your doctor). This alternative course of action must be completed by March 9, 2016. Please contact Interactive Health at least 2 weeks prior to this date at (800) 840-6100 or at rasrequest@interactivehealthinc.com to ask our health management team about a reasonable alternative standard to qualify for the incentive.

Interactive HEALTH
Your Wellness Program Provider

# Baker Victory Services

December 27, 2013

Dear Employee

Baker Victory Services is preparing for the 2014 Wellness Health Evaluations which will occur beginning January 14, 2014. Please read this information carefully.

Once again, the Baker Victory Services Wellness Committee will be partnering with Interactive Health Solutions (IHS) to continue to offer our Wellness program to staff covered under our health insurance plans. The information in this letter applies to the AFSCME, NYSUT, Non-union and ChildPro/Monarch benefit groups. Anyone in these groups will be able to participate regardless of when, or if, you have previously tested. Please see the appropriate section below for instructions:

**I and/or my covered spouse completed our first Wellness Evaluation in January 2013:** Congratulations, you and/or your spouse have each been receiving the $50.00/month rebate of health insurance premiums for 2013. You will each be eligible to continue to receive the rebate of premiums by completing a new Health Evaluation and meeting your goal. The goal is based on your Health Index Score that was established after your January 2013 testing. Please see the **Scheduling an Appointment** section below for information on how to schedule your Health Evaluation appointment(s).

**I and/or my covered spouse completed a Wellness Evaluation in January 2013 and I/we met our goal:** Congratulations, you and/or your spouse have each been receiving the $50.00/month rebate of health insurance premiums for 2013. You will each be eligible to continue to receive the rebate of premiums by completing a new Health Evaluation and meeting your goal. The goal is based on your Health Index Score that was established after your January 2013 testing. Please see the **Scheduling an Appointment** section below for information on how to schedule your Health Evaluation appointment(s).

**I and/or my covered spouse completed a Wellness Evaluation in January 2013 and I/we did not meet our goal:** You are still able to participate in the program. You, and/or your covered spouse, will each be eligible to receive the $50.00/month rebate of health insurance premiums by completing a new Health Evaluation and meeting your goal. The goal is based on your Health Index Score that was established after your January 2013 testing. Please see the **Scheduling an Appointment** section below for information on how to schedule your Health Evaluation appointment(s).

**I and/or my covered spouse last completed a Wellness Evaluation prior to January 2013:** You are able to participate in the program. You, and/or your covered spouse, will each be eligible to receive the $50.00/month rebate of health insurance premiums by completing a new Health Evaluation and meeting your goal. Your goal will be based on your Health Index Score that was established after your last testing regardless of when that was. Please see the **Scheduling an Appointment** section below for information on how to schedule your Health Evaluation appointment(s).

**I and/or my covered spouse have never completed a Health Evaluation:** Welcome to the program. You, and/or your covered spouse, will each be eligible to receive the $50.00/month rebate of health insurance premiums simply by completing a Health Evaluation. Please see the **Scheduling an Appointment** section below for information on how to schedule your Health Evaluation appointment(s).

**Scheduling an Appointment:**

Enclosed you will find the instructions for scheduling your on-site Wellness Health Evaluation appointment during the week of 01/14/14 – 01/17/14. You must schedule your on-site appointment by 01/08/14. Please follow these instructions carefully. To complete the process you will need your insurance card and the phone and fax numbers of your primary care doctor.

To receive a rebate for your spouse, they must be covered under a Baker Victory Services health insurance plan and they must schedule and complete a Health Evaluation. The employee must register before the spouse will be able to register and schedule an appointment.

On-line is the easiest and fastest way to schedule your appointment and complete/update your medical history. Please be sure to turn-off any pop-up blockers on your computer prior to attempting to schedule your appointment. This can be done by selecting the Pop-up Blocker Option under the Tools icon on your Internet Explorer toolbar. If you do not have access to a computer, you may schedule your appointment by calling 1-800-840-6100.

If you wish to conduct your Health Evaluation at an off-site testing facility, please call 1-800-840-6100 and ask for Test on Demand. **All testing must be completed by 1/31/14.**

**<u>There is no cost for the Health Evaluation testing.</u>** Our health insurance coverage will pay the cost of the testing.

Incentives under this wellness program are available to all eligible employees. If you are unable to meet your health goals that are required for you to earn an incentive under this wellness program, you may qualify for an opportunity to earn the same incentive through an alternative course of action. This alternative course of action must be completed by March 14, 2014. Please contact Interactive Health at least two weeks prior to this date at (800) 840-6100 and ask to speak to the health management team about a reasonable alternative standard to qualify for the incentive.

Once again we are very excited to be offering this program to our employees. If you have problems registering or scheduling an appointment, please contact IHS at 1-800-840-6100 or the Human Resource Dept. at 828-9310. We look forward to seeing you at the evaluations.

Sincerely

The BVS Wellness Committee

Baker Victory Services
Social Worker Reconciliation for CFR 4
For the year ended Jue 30, 2014

Exhibit III

| | CFR Pos Code | Preschool Programs 9160 | 9165 | 9135 | EI 9300 | |
|---|---|---|---|---|---|---|
| CFR 4 Reconciliation: | | | | | | |
| Per worksheet | 351 | $ 2,401 | $ 257 | $ 21,740 | $ 90,889 | |
| Position Reclass entry | | (2,401) | (257) | (21,740) | (90,889) | |
| Total Positoin Code 351 per CFR 4 | 351 | $ - | $ - | $ - | $ - | |
| Per worksheet | 521 | 1,593 | 170 | | | |
| | 218 | | | 134,999 | | |
| | 236 | | | 111 | | |
| | 322 | | | | (4,395) | |
| | 325 | | | | (40,767) | |
| | 349 | 6,681 | 713 | | | |
| | 337 | | | | 1,394 | |
| | 351 | 2,400 | 257 | 21,740 | 90,889 | |
| | | 10,674 | 1,140 | 156,850 | 47,121 | |
| Per CFR 4: | 521 | 10,677 | 1,140 | | - | |
| | 325 | | | | 47,120 | |
| | 218 | - | - | 156,851 | - | |
| Total Per CFR 4 | | 10,677 | 1,140 | 156,851 | 47,120 | |
| Difference | | $ (3) | $ - | $ (1) | $ 1 | Rounding |

Baker Victory Services
Preschool Program Directors Cost Allocation Analysis
For the year ended June 30, 2014

Exhibit IV

| Program Code | 9100 (Per CFR 4) | 9160 (Per CFR 4) | 9165 (Per CFR 4) | 9135 (Per CFR 4) | Total |
|---|---|---|---|---|---|
| Program Director (Position Code 501) Sample: | | | | | |
| Director 1 | $ 15,540 | $ 31,374 | $ 3,350 | $ 3,304 | $ 53,568 |
| Director 2 | 4,116 | 35,873 | 3,830 | 3,759 | 47,578 |
| Total Wages | 19,656 | 67,247 | 7,180 | 7,063 | 101,146 |
| As a Percentage of total Salary | 19.43% | 66.49% | 7.10% | 6.98% | 100.00% |
| Summary of Staff FTE per CFR 4: | | | | | |
| Total FTE's per CFR 4 | 23.324 | 91.925 | 9.817 | 4.277 | 129.343 |
| Less: Positon | (0.313) | (1.678) | (0.179) | (0.103) | (2.273) |
| Program FTE's Without Program Directors | 23.011 | 90.247 | 9.638 | 4.174 | 127.070 |
| Program FTE's as a Percentage of Total FTEs | 18.11% | 71.02% | 7.58% | 3.28% | 100.00% |

# State Comptroller's Comments

1. Based on the information and documentation provided by Baker Victory officials, we deleted the costs for wellness incentives ($13,770) from our recommended audit disallowances.
2. We amended our report to reduce the disallowance related to excess compensation for two employees reported in one CEO title from $4,560 to $4,546. This correspondingly reduced the overall disallowance for excess compensation costs from $8,518 to $8,504.
3. We maintain our conclusion that Baker Victory improperly claimed $22,925 in non-Program-related salary expenses to the Programs. As part of our audit testing, we reconciled Baker Victory's payroll register and supplementary schedules to the expenses reported on the CFR. Information from these sources was used to prepare Baker Victory's CFR. Based on our testing, we determined that salary expenses for a "Service Coordinator Medicaid (OPWDD only)" was inappropriately charged to the Programs. Baker Victory officials were unable to refute these findings during the audit fieldwork, and the supplemental information included in their response is not related to the employee in question (and consequently the $22,925).
4. Contrary to their assertions, Baker Victory officials did not provide sufficient documentation to support claimed expenses for training in Fort Lauderdale, Florida. For training to be reimbursable, SED guidelines require the entity to maintain brochures, agendas, or other literature that verifies attendance and documents the purpose of the training, conference, or meeting. Although Baker Victory officials claim they have certain information to support the training, officials did not produce the SED-required documentation during the course of the audit, nor did they provide it in their response. Absent proper documentation, we maintain that the $1,002 in training costs should be disallowed.
5. We maintain that our conclusions regarding Baker Victory's cost allocations are accurate. As stated on pages 5 and 6 of our report, we conducted comprehensive testing of three allocation methodologies that Baker Victory used to allocate $207,042 in costs. We determined Baker Victory lacked documentation that sufficiently described the allocation methodologies and the statistical basis for allocating the costs. We further determined the allocation methods conveyed to auditors were unclear and not reasonable. In addition, Baker Victory's external CPA identified errors in Baker Victory's allocation process, and the CPA recommended a review of all allocations and that Baker Victory formally document the methodologies that were used. The CPA communicated these concerns to Baker Victory in February 2013 and again in January 2015. However, the CPA's concerns were never addressed because Baker Victory did not have the necessary procedures and protocols in place to ensure that information of this nature was identified and communicated to appropriate officials within the organization.
6. It is unclear how Baker Victory "believes" its FTE analysis validates that the amounts allocated to the Programs for the two Program Directors are fair and reasonable. In Exhibit IV of Baker Victory's response, officials appear to have culled information from CFR 4 and other unknown sources and simply tabulated the data. This does not sufficiently address our audit findings or Baker Victory's pervasive lack of supporting documentation. We are pleased that, in response to our audit, Baker Victory management is in the process of reviewing the allocation methodologies of employees who are shared with multiple programs to determine the most appropriate allocation methodology to use.
7. The audit's conclusions regarding maintenance cost allocations are accurate. From our

review of various documentation, including the written allocation methodology and maintenance work orders that supported the maintenance allocation percentage, we found that the documentation was incomplete and inadequate, and the methodology used by Baker Victory to allocate these costs was not reasonable. We are pleased that Baker Victory is taking steps to ensure that all jobs performed by the Maintenance Department are properly requested, completed, and documented.

8. As stated on page 6 of our report, Baker Victory was unable to provide documentation of the time study or units of service that were used as the basis for the allocation of the $17,270 in OTPS costs. Further, Baker Victory officials were not able to satisfactorily explain why allocations of the various OTPS costs were based on the time study of a Program Director's activities. We are pleased that Baker Victory is taking steps to determine if there are more appropriate methods for allocating expenditures of this nature.