



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
The Alcott School**



Report 2015-S-97

July 2016

Executive Summary

Purpose

To determine whether the costs reported by the Alcott School (Alcott) on its Consolidated Fiscal Report (CFR) were properly calculated, adequately documented, and allowable under the State Education Department's (SED) guidelines, including the Reimbursable Cost Manual (RCM). We audited costs that Alcott reported on its CFR for the year ended June 30, 2014.

Background

Alcott is an SED-approved, not-for-profit special education provider located in Westchester County, New York. Alcott provides preschool special education services to children with disabilities who are between three and five years of age. Alcott is reimbursed for preschool special education services through rates set by SED. The reimbursement rates are based on financial information, including costs, that Alcott reports to SED on its annual CFR. To be eligible for reimbursement, reported costs must comply with RCM requirements. For the year ended June 30, 2014, Alcott reported about \$4.3 million in reimbursable costs on its CFR for four rate-based preschool special education programs (Programs).

Key Findings

For the year ended June 30, 2014, we identified \$55,969 in ineligible costs that Alcott reported on its CFR for the Programs. The ineligible costs included:

- \$52,442 in personal service costs, which consisted of \$49,874 in unsupported staff time, and \$2,568 in employee compensation that was reported as more than one full-time equivalent on the CFR; and
- \$3,527 in other than personal service costs, which consisted of \$1,889 in inadequately documented expenses, \$1,252 in working capital interest, and \$386 in food and other non-reimbursable costs.

We also identified \$15,030 in potentially reimbursable salary expenses for a marketing position that SED disallowed during its desk review of Alcott's CFR costs, prior to our on-site audit. Finally, we identified certain control weaknesses and compliance deficiencies that Alcott officials should correct.

Key Recommendations

To SED:

- Review the audit findings identified by our audit and, if warranted, make the necessary adjustments to the costs reported on Alcott's CFR and to Alcott's tuition reimbursement rates.
- Remind Alcott officials of the pertinent SED guidelines that relate to the deficiencies we identified.

To Alcott:

- Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.
- Improve compliance with the RCM by: submitting CFRs timely; ensuring proper independent review and approval of time records by supervisors; competitively bidding contracted services; and ensuring less than arm's length transactions are disclosed on the CFR.

Other Related Audits/Reports of Interest

[The Arc of Orange County: Compliance With the Reimbursable Cost Manual \(2015-S-45\)](#)

[Rivendell School: Compliance With the Reimbursable Cost Manual \(2015-S-25\)](#)

State of New York
Office of the State Comptroller

Division of State Government Accountability

July 25, 2016

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

Ms. Monica Zenda
Executive Director
The Alcott School
27 Crane Road
Scarsdale, NY 10583

Dear Ms. Elia and Ms. Zenda:

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

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

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

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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

Background

The Alcott School (Alcott) is a not-for-profit organization that provides various educational services in Westchester County, New York. Alcott is managed by an Executive Director, who is overseen by a board of directors. Alcott is authorized by the State Education Department (SED) to provide, among other programs, preschool special education services to children with disabilities who are between three and five years of age. During the audit period, Alcott provided four “rate-based” preschool special education programs to 265 students. The rate-based programs included: Preschool Special Class – 2.5 hours per day; Preschool Integrated Special Class – 2.5 hours per day; Preschool Integrated Special Class – over 2.5 hours per day; and Preschool Special Education Itinerant Teacher Services (collectively referred to as the Programs).

The counties that use Alcott’s preschool special education services pay tuition to Alcott 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 Alcott on its 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 year ended June 30, 2014, Alcott reported about \$4.3 million in reimbursable costs for the Programs.

Audit Findings and Recommendations

According to the RCM, costs reported on the CFR are eligible for reimbursement if they are reasonable, necessary, directly related to the special education program, and adequately documented. For the year ended June 30, 2014, we identified \$55,969 in costs that Alcott reported on its CFR that did not comply with the RCM's requirements for reimbursement. The ineligible costs included \$52,442 in personal service costs and \$3,527 in other than personal service (OTPS) costs. Also, prior to our on-site audit, SED disallowed \$15,030 in compensation for a marketing position that was determined to be ineligible for reimbursement. Based on our audit, we concluded that the costs in question were potentially eligible for reimbursement and recommend that SED reconsider its prior adjustment.

We also identified control weaknesses that led to certain Alcott supervisors approving their own time records. Additionally, we determined Alcott did not competitively bid services that were performed by a related party, and Alcott did not disclose a less than arm's length transaction on its CFR, as required.

Personal Service Costs

For the year ended June 30, 2014, we identified \$52,442 in ineligible personal service costs that Alcott reported on its CFR that did not comply with the RCM's requirements for reimbursement, including \$49,874 in unsupported staff time and \$2,568 in excess compensation for employees that was reported as more than one full-time equivalent (FTE) on the CFR.

Unsupported Staff Time

According to the RCM, compensation costs must be based on approved, documented payrolls. Payrolls must be supported by employee time records prepared during, not after, the time period for which the employee was paid. However, we identified \$49,874 in unsupported personal service costs (\$43,370 in salary and \$6,504 in associated fringe benefits) that Alcott reported on its CFR for the year ended June 30, 2014. Specifically, we determined the time records for five employees were insufficient and did not account for enough hours to support the costs reported on the CFR.

Reimbursement Greater Than One Full-Time Equivalent

According to the RCM, reimbursement for compensation of individual non-direct care staff is limited to one FTE per person. Nonetheless, we found that Alcott reported compensation expenses exceeding one FTE for two employees on its CFR. As a result, we determined the non-reimbursable portion of the excess personal service costs totaled \$2,568 (\$2,233 in salary and \$335 in associated fringe benefits).

Other Than Personal Service Costs

For the year ended June 30, 2014, we identified \$3,527 in ineligible OTPS costs that Alcott reported on its CFR that were either not related to the Programs, not adequately documented, or otherwise not allowable under the RCM requirements.

Non-Reimbursable Credit Card Expenses

According to the RCM, costs for food, gifts, and personal expenses are not reimbursable. Also, costs reported must be adequately documented and related to the Programs. We identified \$2,275 in costs that were ineligible for reimbursement because they were not in compliance with these RCM requirements. The ineligible costs include the following:

- \$1,889 in inadequately documented expenses;
- \$261 in food and related supplies for staff and parents; and
- \$125 in other non-reimbursable costs, including \$56 in gift cards, \$50 that was incorrectly reported under the Programs, and \$19 in personal expenses.

Working Capital Interest

The CFR Manual requires providers to submit CFRs no later than 120 days after the end of the reporting period or no later than 150 days after the end of the reporting period with a pre-approved 30-day extension request. For July–June filers, such as Alcott, the extended due date is December 1. Interest expense on working capital loans is reimbursable on a prorated basis if the CFR is submitted within 90 days after the due date; otherwise, it is not reimbursable. Alcott requested and received an extension until December 1, 2014 to submit its CFR. However, Alcott submitted its CFR on January 1, 2015, 31 days after the extended due date. Consequently, we determined \$1,252 in working capital interest was not eligible for reimbursement.

Prior SED Adjustment for Marketing Position

According to the RCM, advertising costs for the purpose of recruiting students into programs or fundraising are not reimbursable. However, outreach activities that describe the services offered by approved private schools, which enable the schools to better contribute to community educational objectives, are reimbursable.

For the year ended June 30, 2014, Alcott allocated \$15,030 in costs on its CFR to the Programs for a marketing position. Based on the available information during its desk review of Alcott's CFR, SED determined that the marketing position was for the promotion of the school, and therefore disallowed the total compensation expense associated with it prior to our on-site audit.

We reviewed Alcott's listed job duties for the marketing position, which included web design and maintenance and technical support. Based on our review, we concluded these duties were not related to recruitment and/or fundraising and therefore could be eligible for reimbursement. We

provided SED officials with the job duties for the position, and they agreed with our assessment. We note that at the time of SED's desk review, Alcott did not provide SED with a description of the marketing position duties; therefore, SED determined the costs in question were not reimbursable.

Other Matters

Supervisory Time Sheet Sign-Offs

According to the RCM, employee time sheets must be signed by the employee and a supervisor. We identified control weaknesses at Alcott, wherein two supervisors (including a Co-Executive Director) approved their own time records. Alcott used sign-in sheets at each of its locations to track employee time. Under Alcott's procedures, a supervisor would approve the time for all employees listed on a sign-in sheet by initialing it. We found that, under this procedure, two supervisors were each initialing the sign-in sheets that accounted for their own time. Alcott management informed us that they have corrected the procedure by requiring two employees, instead of just one, to sign off on all sign-in sheets.

Lack of Competitive Bidding for Contracted Services

According to the RCM, certain contracted services must be competitively bid. Alcott contracted directly with a related party, Kevin O'Dell Carpentry (O'Dell Carpentry), for repairs and maintenance services without obtaining competitive bids. Kevin O'Dell was the spouse of Alcott's Controller. The contract began in July 2010 and remained in effect during the audit. Alcott management cited convenience and the willingness of O'Dell Carpentry to work in the evenings and after school hours as factors for not seeking competitive bids. We performed additional work and determined the expenses reported for O'Dell Carpentry were reasonable – in particular, the expenses pertaining to labor costs were below the regional labor rates for similar work. While we determined the costs were below the prevailing rates, to help ensure compliance with the RCM and best price going forward, Alcott should competitively bid these services.

Undisclosed Related Party

According to the CFR Manual, all related-party transactions must be reported on the CFR-5 schedule. Additionally, the RCM states that providers must have a conflict of interest policy that includes a requirement and process for fully disclosing all less than arm's length (LTAL) transactions. We determined Alcott did not disclose a LTAL transaction on its CFR as required. The owner of a vendor, Nature of Things, with whom Alcott had a long-established business relationship, joined Alcott's Board of Directors in 2013, creating a reportable LTAL condition.

However, at that time, the relationship between Nature of Things and Alcott was not identified and reported. We determined that Alcott's conflict of interest policy that was in place was insufficient and did not require or provide a process for board members to disclose LTAL relationships as required. Although we determined the payments to Nature of Things were not allocated to the

Programs on the CFR, they still required disclosure on the CFR we reviewed. During the audit, Alcott management informed us they have revised their conflict of interest reporting policy.

Recommendations

To SED:

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

To Alcott:

3. Ensure that costs reported on annual CFRs fully comply with SED's requirements, and communicate with SED to obtain clarification as needed.
4. Improve compliance with the RCM by: submitting CFRs timely, ensuring proper independent review of time records by supervisors, competitively bidding contracted services, and ensuring LTAL transactions are disclosed on the CFR.

Audit Scope and Methodology

We audited the costs that Alcott reported on its CFR for the 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 as well as the CFR Manual and its related appendices. We became familiar with Alcott's internal controls as they related to costs Alcott reported on the CFR. We also interviewed personnel to obtain an understanding of the practices for reporting costs on the CFR. We reviewed Alcott's CFR and relevant financial records for the audit period. We obtained accounting records and supporting information to assess whether certain costs claimed by Alcott on the CFR, such as costs that are considered high risk and reimbursable in limited circumstances, were properly calculated, adequately documented, and allowable.

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

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

Authority

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

Reporting Requirements

We provided a draft copy of this report to SED and Alcott 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. In their response, Alcott officials generally agreed with the audit findings; however, they raised issues pertaining to proposed disallowances relating to unsupported staff time. Our rejoinder to those Alcott comments is included in the report's State Comptroller's Comment.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Education shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and if the recommendations were not implemented, the reasons why.

Contributors to This Report

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Division of State Government Accountability

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Vision

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

Mission

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

Exhibit

**The Alcott School
Schedule of Submitted and Disallowed Program Costs
for the Year Ended June 30, 2014**

Program Costs	Amount Per CFR	Amount Disallowed*	Amount Remaining	Notes to Exhibit
Personal Services	\$3,820,592	\$52,442	\$3,768,150	B, H
Other Than Personal Services	540,270	3,527	536,743	A, C-G
Total Program Costs	\$4,360,862	\$55,969	\$4,304,893	

*Our report also included \$15,030 in potentially reimbursable salary expenses for a marketing position that SED initially disallowed during its review of Alcott's CFR costs for the year ended June 30, 2014.

Notes to Exhibit

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

- A. Section II: Costs are considered for reimbursement if they are reasonable, necessary, directly related to the special education program, and adequately documented.
- B. Section II.13.A.4.d: Compensation beyond one FTE for non-direct care staff is non-reimbursable.
- C. Section II.20.B: All personal expenses, such as gift certificates to staff, flowers or parties for staff, holiday parties, etc., are non-reimbursable.
- D. Section II.22.C: Costs of food provided to staff are non-reimbursable.
- E. Section II.24: Gifts are non-reimbursable.
- F. Section II.28.D.3: Interest working capital will be reimbursed on a prorated basis if submitted within 90 days of the respective CFR due date.
- G. Section II.30.C: Costs for food, beverages, and other related costs for meetings are non-reimbursable.
- H. Section III.1.A: Compensation costs must be based on approved, documented payrolls. Payroll must be supported by employee time records prepared during, not after, the time period for which the employee was paid.

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
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June 30, 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 (Department) response to the draft audit report, 2015-S-97, Compliance with the Reimbursable Cost Manual: Alcott School (Alcott).

Recommendation 1: Review the audit findings identified by our audit and, if warranted, make the necessary adjustments to the costs reported on Alcott's CFR and to Alcott's tuition reimbursement rates.

We agree with this recommendation. The Department 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 Alcott officials of the pertinent SED guidelines that relate to the deficiencies we identified.

We agree with this recommendation. The Department will continue to provide technical assistance whenever requested and will strongly recommend that Alcott School officials take advantage of our availability to help them better understand the standards for reimbursement as presented in Regulation and the Reimbursable Cost Manual. In addition, Consolidated Fiscal Report (CFR) training is available at six locations across the State and online on the Department's webpage. The training is recommended for all individuals signing CFR certification statements, namely Executive Directors and Certified Public Accountants, and is required for preschool special education providers upon approval and reapproval. Furthermore, the Department intends to require that the training be mandatory for all providers.

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

c: Suzanne Bolling
Monica Short

Agency Comments - The Alcott School



Pamela A. Madeiros
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June 28, 2016

VIA ELECTRONIC MAIL

Andrea Inman, Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, New York 12236-0001

Re: Alcott School // 2015-S-97
Compliance with the Reimbursable Cost Manual
State Education Department
Draft Report

Dear Ms. Inman:

We have reviewed the Draft Response Report dated June, 2016, referenced above and appreciate the opportunity to provide comment on certain identified audit conditions, findings and recommendations.

Audit Findings and Recommendations

We support the OSC's recommendation that certain reported costs associated with compensation for a marketing position (\$15,030) which SED had disallowed prior to the OSC on-site audit be reconsidered by SED as eligible for reimbursement and appreciate the OSC's determination.

Personal Service Costs

Unsupported Staff Time

Alcott acknowledges that the policies governing maintaining detailed staff time records may have been relaxed under the prior Executive Directors, as related to high management/confidential staff specifically. Internal controls and policies had been strengthened in early 2015 to assure detailed time attendance records are maintained by all Alcott staff, including management and other non-direct care personnel.

By way of context, however, as we shared with the auditors, as it relates to the speech services coordinator (AMM), the unaccounted hours were largely spent visiting the various Alcott locations, in furtherance of her "coordinator" responsibilities, together with various non-direct activities such as reviewing logs.

Similarly, the SEIT Supervisor/Coordinator would visit the various program sites as part of her supervisory responsibilities. We understand it is that collection of hours which was not properly recorded.

*
Comment
1

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*See State Comptroller's Comment on Page 18.

Andrea Inman
June 28, 2016
Page 2

Full-Time Equivalent Reimbursement

Alcott does not challenge the auditors' finding that the work time of two non-direct care staff was incorrectly calculated based upon a misapplication of the work week parameters. Internal fiscal controls have been revised to assure consistency in standard work week calculations based upon documented hours.

Other Than Personal Service Costs

Credit Card Expenses

We do not challenge the auditors' findings that certain credit card expenses lacked sufficiently supportive documentation. We would note, however, that \$951.00 of the proposed disallowance was complicated by the inability of the vendor (Junction Networks) to provide backup documentation. We have improved our invoice reconciliation process accordingly.

Similarly, independent verification of \$402 of Microsoft software expenses was also made more difficult by the loss of the password necessary to access the account which was maintained by the now deceased Executive Director.

Several other expenses proposed to be disallowed were, in fact, properly receipted and documented, but had been mistakenly allocated to the special educator program rather than other programs such as the Montessori program. (\$18.99 Shoprite; \$142 Costco; \$28.77 Indeed; \$40.13 St. Rose; \$256 Dallas Hilton; \$56 Gideon Putnum gift card). Other costs such as \$103.53 were associated with the bulk purchase of food for the students (the Webstraurant Store), although no receipt was available for review.

Working Capital Interest

We do not challenge the auditors' determination that \$1,252 in working capital interest was not eligible for reimbursement as a result of a delayed CFR submission.

Prior SED Adjustment for Marketing Position

Again, Alcott appreciates the opportunity presented by the auditors' review of costs associated with the Marketing Position to provide additional materials in support of the expenses for SED review and reconsideration.

Other Matters

Supervisory Time Sheet Sign-Offs

Upon the appointment of the current Executive Director and Chief Fiscal Officer, Alcott's internal controls, policies and procedures were evaluated for potential lapses in compliance, including the process by which time records were reviewed and approved by supervising staff. The weakness described by the auditors has been remedied and independent reviews of sign-in sheets is standard practice.

Andrea Inman
June 28, 2016
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Competitive Bidding for Contracted Services

We do not challenge the auditor's cited condition that a certain service contract should have been presented through a competitive solicitation or bidding process, and appreciate the auditors' acknowledgement that the expenses in question were, in fact, reasonable. While Alcott viewed the service to have such unique specifications and conditions as to provide an exemption to the competitive solicitation/bidding requirements, we appreciate that a more robust solicitation of interest from other vendors would have been appropriate. Alcott has revised its procurement policies to assure full compliance.

Related Party Transactions

We do not challenge the auditor's assertion that the nature of the relationship of the owner of Nature of Things as a service vendor of the School was not immediately disclosed upon that individual's volunteered membership on the School's Board of Directors. While, as noted by the auditors, no costs associated with Nature of Things was reported on the CFR as program expenses, the School has strengthened its internal controls and revised its conflict of interest policies to assure full compliance with disclosure requirements. Alcott has disclosed the relationship in years subsequent to the audit year, upon learning of the weakness when conducting self-assessments and evaluations in 2014.

• • • • •

We appreciate the opportunity to provide comment and context to the auditors' findings and recommendations.

We also note that the sum total of the disallowance - \$55,969 – approximates 1.3% of Alcott's operating budget of \$4.3 million.

Very truly yours,

GREENBERG TRAURIG, LLP

Pamela A. Madeiros

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ALB 1940664v1

CC: Thomas Sunkel, OSC
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Thalia Melendez, NYSED
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State Comptroller's Comment

1. According to the RCM, compensation costs must be based on documented payrolls supported by employee time records. Employees whose job responsibilities require them to visit multiple locations must still fully account for and document their time. Additionally, officials did not provide evidence confirming that the employees worked at other locations during the times in question. Therefore, we maintain that the costs in question are not reimbursable.