Audit Report

Crossroads School for Child Development

For the Period

July 1, 1998 through June 30, 2001

SE-0100-2

February 15, 2002

The University of the State of New York
THE STATE EDUCATION DEPARTMENT
Office of Audit Services
Albany, New York 12234

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

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February 15, 2002

Ms. Susan Matura
Executive Director and Board President
Crossroads School for Child Development
90 Henry Street
Inwood, New York 11096

Dear Ms. Matura:

The following is our final audit report (SE-0100-2) on the Crossroads School for Child Development (School) for the period July 1, 1998 through June 30, 2001. The audit was conducted pursuant to Education Law Section 305 and the Board of Regents/State Education Department Strategic Plan – Goal #5 which states: "Resources under our care will be used or maintained in the public interest."

We are particularly concerned about the School's financial condition and the adequacy of the plan to address it. The School needs to monitor its financial position closely and continuously and amend its financial plan as needed. The School also needs to address the recommendations in the Financial Viability section of the report. It will be necessary for the School to inform the Department and New York City of any significant changes in its financial condition or plans in a timely manner.

We are equally concerned with the School's response and actions taken relative to the recommendations in our prior audit report from 1997. In its response dated July 9, 2001, the School did not agree to direct charge expenses, allocate expenses to all programs benefiting from the expense, or allocate expenses on a fair and reasonable basis. In addition, the School did not adequately document certain expenses. This can result in inaccurate accounting records and reports, and the Department will not be able to set appropriate tuition rates. In its response dated January 29, 2002, the School indicated its willingness to make improvements related to its accounting for costs. The School should begin work in this area immediately.

The School provides a much needed service to the children in the New York metropolitan area. The Department will continue to work with the School to provide comprehensive services to children.

Ninety days from the issuance of this report, District officials will be asked to submit a report on actions taken as a result of this audit. This required report will be in the format of a recommendation implementation plan and it must specifically address what actions have been taken on each audit recommendation.

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from the issuance of the final audit report. Appendix C describes the process to be followed in the event of such disagreement.

I appreciate the cooperation and courtesies extended to the staff during the audit.

Sincerely,

Daniel Tworek

Enclosure

cc: S. Berman, R. Calhoun, R. Cate, R. Cort, L. Gloeckler, T. Hamel, R. Levay, M. Plotzker, T. Sheldon, C. Foster (DOB), B. Mason (OSC), Marlene Malamy (New York City), Salim Ejaz, Joan Wheeler (Nassau County)

Executive Summary

Background and Scope

Crossroads School for Child Development (School), a private preschool located in Nassau County, provides educational services to preschool age and infant children. The School reported total expenses of $2.7 million and served about 90 FTE students in the preschool and early intervention programs in the 1999-2000 year.

The audit examined selected management practices, records and documentation for the period July 1, 1998 through June 30, 2001. This was a follow-up audit to our review of the School in 1997 whereby we identified significant deficiencies in financial related areas for the School and reduced reimbursable expenses by over $750,000. The purpose of the current audit was to assess the School's financial viability and the actions taken by School officials, as of June 30, 2001, to implement the recommendations from our prior audit.

Audit Results

The audit questions the financial viability of the School and the adequacy of its plan to become financially solvent. The School's financial statements for the 1999-2000 year show net assets of negative $2.1 million as of June 30, 2000, i.e., liabilities exceeded assets by this amount. The School's plan to address the deficit relies upon cost savings measures and surpluses that might be generated from an expansion of the early intervention programs. However, our review of the School's financial plan and repayment plan identified significant concerns. The financial plan only addresses the current year and does not include any cash flow projections. Also, the costs may be understated and enrollment and revenue overstated. The School needs to closely monitor its financial position and amend its financial plan as needed (pages 3-7).

The first audit in 1997 reported questionable allocation methods, non-reimbursable and undocumented expenses, accounting and reporting errors, undisclosed related party transactions, and weaknesses in internal controls. The School has made some progress in implementing the recommendations: 16 recommendations were fully implemented, 3 were partially implemented, and 5 were not implemented. The School made some improvements related to documentation for allocations, reporting and classification of expenses, disclosure of related party transactions, issuance of loans, and other areas.

The School still needs to improve its procedures for charging expenses to program cost centers, allocating expenses, calculating student FTE, and other areas. The School needs to charge salary and non-salary expenses directly to the education programs' cost centers, where appropriate, rather than allocating most expenses. It also needs to allocate expenses to all programs that benefit from the expense, use fair and reasonable methods to allocate costs, and maintain adequate documentation to support expenses. Failure to do so will result in inaccurate accounting and reporting of costs and the Department will not be able to set accurate tuition rates. A more detailed discussion of each of the recommendations is found in the body of the report (page 8-16).

The School provides a much needed service to the children in the New York metropolitan area. The Department will continue to work with the School to provide comprehensive services to children.

Comments of School Officials

School officials' comments about the findings were considered in preparing the report. Their comments about this report are included as Appendix B. School officials believe the financial plan and the repayment plan allow the School to maintain its financial viability and provide quality services to the children and families it serves. In regard to the recommendations, School officials initially disagreed with several recommendations related to accounting and allocating costs, and calculating student FTE, but now have indicated their willingness to make the necessary improvements.

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Introduction

Background

The State Education Department (Department) approves private schools to provide educational services to preschool students with disabilities. Each school is required to report revenue, expenses, and full time equivalent (FTE) attendance. This information is used by the Department to calculate tuition rates. The county or municipality in which the student resides pays the student's tuition at the approved rate and the Department reimburses the municipality or county for a portion of the tuition.

Crossroads School for Child Development (School), located in Inwood, New York, Nassau County, provides educational services to preschool age and infant children. The School operates various programs including preschool, early intervention, and evaluation programs. The School reported total expenses of $2.7 million and served about 90 FTE students in the preschool and early intervention programs in the 1999-00 school year.

A prior audit (SE-1195-1) by the Department in 1997 identified significant deficiencies in financial related areas for the School, including questionable allocation methods, non-reimbursable and undocumented expenses, accounting and reporting errors, undisclosed related party transactions, and weaknesses in internal controls. In total, the audit reduced reimbursable expenses for the preschool program by over $750,000. The audit adjustment and the impact on subsequent years' tuition rates led to the deterioration of the School's financial condition.

Objectives, Scope and Methodology

Pursuant to Part 200.18 of the Regulations of the Commissioner of Education (Regulations), the audit was undertaken to assess the School's financial viability and the actions taken by School officials as of June 30, 2001 to implement the recommendations from our prior audit. The scope of the audit did not include verifying the accuracy and reliability of expenses, revenue, and FTE attendance reported to the Department for the current year.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed Department and School management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the School's audited financial statements.

We conducted our audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operational records, and applying other audit procedures considered necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that the audit provides a reasonable basis for our findings, conclusions, and recommendations.

Audit Results

The audit questions the financial viability of the School and the adequacy of its plan to become financially solvent. The School needs to closely monitor its financial position and amend its financial plan as needed. The School made some progress in implementing the recommendations of the previous audit: 16 recommendations were fully implemented, 3 were partially implemented, and 5 were not implemented. The School needs to take action to address the recommendations that were not fully implemented.

The School provides a much needed service to the children in the New York metropolitan area. The Department will continue to work with the School to provide comprehensive services to children.

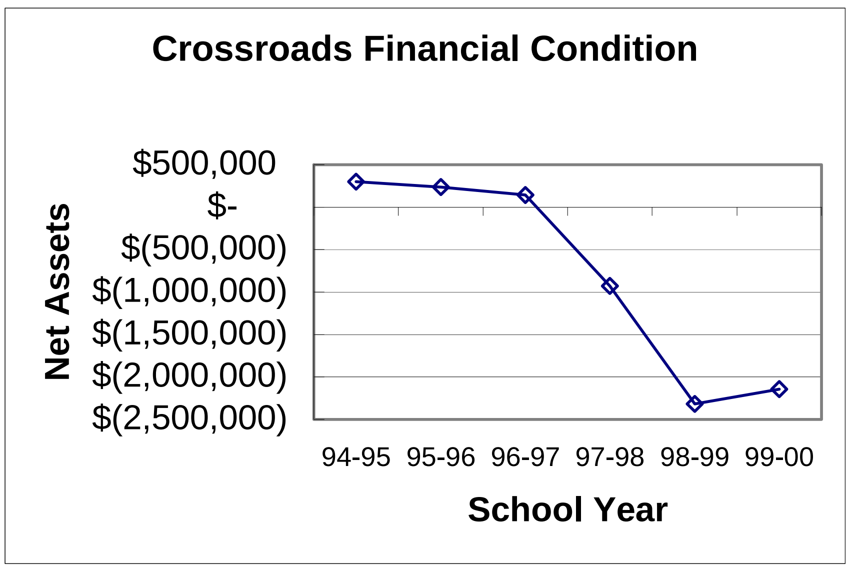
Comments of School Officials

School officials' comments about the findings were considered in preparing the report. Their comments are included as Appendix B. School officials believe the financial plan and the repayment plan allow the School to maintain its financial viability and provide quality services to the children and families it serves. In regard to the recommendations, School officials initially disagreed with several recommendations related to accounting and allocating costs, and calculating student FTE, but now have indicated their willingness to make the necessary improvements.

Financial Viability

Schools approved by the Department to provide special education services to children should be financially viable. However, the audit questions the financial viability of the School and its ability to continue as a going concern.

The School's financial statements for the 1999-2000 year show net assets of negative $2.1 million as of June 30, 2000, i.e., liabilities exceeded assets by this amount. The negative position is primarily a result of the cumulative effect of audit adjustments related to non-reimbursable expenses. The audit adjustments impacted subsequent years' tuition rates resulting in the School owing New York City and Nassau County about $2.6 million. The following graph shows the School's net assets for the past six years.



Source: Crossroads' Financial Statements 1994-95 through 1999-2000

The decreasing trend with net assets is caused primarily by insufficient revenue to cover expenses. For the 1995-96 through 1998-99 school years, the School operated in the red and had not been able to keep expenses in line with revenue. For example, expenses exceeded revenue by $142,406 for the 1998-99 school year before any prior year tuition adjustments.

Under the current tuition reimbursement system, schools are paid for actual expenses to operate the preschool programs, subject to certain limitations. Any decreased spending for program services or cost savings will result in lower tuition rates and reimbursements. In general, the primary sources of funds for disallowances (deficit positions) are payments from fundraising, donations, surpluses from other programs such as the early intervention programs, and prior year savings. However, the School has not been able to access these funds to any great degree. The School's deficit position is being primarily funded by pending arrangements with New York City and Nassau County.

To address its financial condition, the School instituted a restructuring process in July 1999 that included changes to personnel. The School indicated that the changes have allowed it to operate in a more streamlined and effective manner. In fact, the School was able to generate a $176,000 surplus for the 1999-2000 school year. However, the surplus appears to be related to the preschool programs and will, in all likelihood, be repaid to municipalities when lower tuition rates are set.

The School has not provided accounting reports (trial balance) or financial statements for the year ended June 30, 2001 so the audit is not able to comment on the results of operations for the year. For the 2001-02 school year, the School has expanded the early intervention programs and expects to earn a surplus from these programs. This surplus and any surpluses from future years will be used to pay amounts owed New York City and others. The School's strategy for expanding the early intervention programs, addressing its deficit, and paying its debts is spelled out in its financial plan and repayment plan.

Financial Plan

The financial plan includes detailed projections of revenue and expenses for the preschool and early intervention programs for the 2001-02 school year. The plan shows that the preschool programs will break even and the early intervention programs will generate a surplus of about $313,000. Our review of the plan identified the following concerns.

- The plan only addresses the 2001-02 school year and does not make any projections for subsequent years.

- The plan does not include any cash flow projections or identify any sources of loans or lines of credit. Without this information, there is less assurance that the School will meet its payroll and other obligations.

- Some of the projection of student enrollments and, therefore, revenue seem overly ambitious. For example, the School projects that the early intervention - home based program will grow from 5 students to 30 students (500 percent increase) from July 2001 to November 1, 2001. The School has not provided updated actual student enrollment data, as requested.

- The projection of costs for the early intervention - home based program does not include any costs for the teachers who provide the services.

- Some salary projections may be understated. For example, the School used an average salary of $40,000 in projecting costs for its therapists, but the School's payroll records for 1998-99 show the average pay for a therapist was $55,577, or $15, 577 more than the projected amount for each therapists.

- The plan shows that the preschool programs will generate 70 percent of the revenue and incur 77 percent of the costs. The early intervention programs will generate 30 percent of the revenue and incur only 23 percent of the costs. The unequal distribution of revenue and expenses between the programs raises questions about the reasonableness of the allocations and direct charges of costs to the various cost centers. Recommendations 1 and 3 in the subsequent section of the report address our concerns with the School's methods for accounting, allocating, and reporting costs.

- The financial statements show employees' fringe benefits rates of 15.7 percent and 19.4 percent for the 1998-99 and 1999-2000 years, respectively. However, the School used a rate of 12.4 percent for the preschool programs and 15.0 percent for the early intervention programs in its financial plan.

The audit did not attempt to correct or restate the projections. However, these concerns highlight the fact that the plan is based on assumptions and projections that may not materialize. As such, the School must closely monitor its financial position and amend its plan as needed. The School should also inform the

Department and New York City of any significant changes in a timely manner.

Repayment Plan

The School prepared a repayment plan in June 2001 to address the amount owed New York City. The plan calls for four monthly payments of $20,000 (September 2001 through December 2001), 102 monthly payments of $25,000 (January 2002 through June 2010), and a final payment of $29,324 (July 2010). This plan shows it will take the School about 10 years to pay off the amount owed. As of November 1, 2001, New York City had not approved the plan. Our review of the plan identified the following concerns.

- The plan does not provide for any interest charges on the loan. It is our understanding that New York City intends to charge the School interest on the loan. This would need to be factored into the repayment plan and would significantly extend the final payment date.

- The plan does not include any provisions to pay amounts owed to Nassau County and the pension plan. The School needs to consider amounts owed to others to provide a more realistic picture of the required repayments over the next decade.

The School's financial plan and repayment plan may not be adequate and the School will continue to have financial difficulties. For example, the School has not been able to meet its contributory requirements and owes the pension fund $272,920. Faced with financial difficulties, the School may also have some difficulty in providing mandated student services. As such, the Department and New York City must closely monitor the School's program services, its financial position, and its ability to continue as a going concern. Also, the School needs to keep its accounting records current and prepare financial statements in a timely manner.

The School did not close its accounting records and file its Consolidated Fiscal Report (CFR) and financial statements in a timely manner. For example, the 1998-99 CFR and financial statements, which were due on December 1, 1999, were not received by the Department until May 2, 2000, or five months after the due date. Similarly, the 1999-2000 and the 2000-01

CFRs and financial statements have not been received by the due date. Failure to submit the data by the required due date may delay the calculation of the tuition rate and impact cash flow. Also, if the accounting records are not closed out and the financial statements prepared in a timely manner, it is more difficult for the School to monitor its financial condition. The School needs to improve its accounting and reporting procedures to ensure the reports are completed and submitted by the due date.

Recommendations

1. Develop a long-term financial plan (three to five years).

2. Prepare a cash flow statement to help ensure the School will be able to meets it payroll and other obligations.

3. Closely monitor the School’s financial position and amend the financial plan as needed.

4. Inform the Department and New York City of any significant changes in the School's financial position or its financial plan in a timely manner.

5. Revise the repayment plan to provide for the repayment of any interest charges required by New York City, and amounts owed to Nassau County and the pension plan.

6. Keep the School's accounting records current and prepare the financial statements and CFR in a timely manner.

Status of Prior Audit Recommendations

Of the 24 prior audit recommendations, School officials fully implemented 16 recommendations, partially implemented 3 recommendations, and did not implement 5 recommendations. The audit is particularly concerned about the failure of the School to accurately account for expenses as specified in the Department's Cost Manual. The School has not agreed to direct charge expenses, allocate expenses to all programs benefiting from the expense, or allocate expenses on a fair and reasonable basis. This results in inaccurate accounting records and reports and the Department is not able to set appropriate tuition rates. A discussion of each recommendation and our concerns follow.

Recommendation 1

Improve procedures to ensure that allocation methods are fair and reasonable and supported by documentation.

Status – Not implemented.

School action – School officials stated that they implemented the recommendation and made their best effort to allocate expenses based on programs benefited. However, the audit determined the School did not adequately address the recommendation. It allocated all teacher and teacher assistant salary expenses to the educational programs using student FTEs even though some of the individuals only worked in one program and should have been direct charged to that program. In fact, the Cost Manual states that allocation methods are to be used only after all attempts have been made to direct charge an expense.

The School charged $20,841 in car expenses for its Executive Director and Assistant to the early intervention programs. The Cost Manual states that any expenditure that cannot be charged directly to a specific program must be allocated across all programs benefited by the expenditure. Since the car expenses also benefited the preschool programs, the School does not have the option to charge the whole expense to the early intervention programs.

School officials stated telephone expenses were allocated based on the number of employees. However, the audit determined the telephone expenses were allocated to each program based on the number of hours worked by each employee. This is not reasonable in that teachers and assistants account for 60 percent of the hours worked, but spend the majority of their time in the classroom away from telephones. Ratio value or student FTE would have been a more accurate method of allocating telephone expenses to the educational programs.

The School allocated certain expenses using student FTE. However, the School did not calculate student FTE in accordance with Department Regulations (See Recommendation 11). As a result, the School's salary allocations were not accurate, but the impact on allocated costs was minimal.

The School needs to direct charge expenses where possible and allocate other expenses to all programs that benefit from the expense. Failure to do this will result in inaccurate accounting and reporting of expenses.

Recommendation 2

Maintain adequate records to enable the proper allocation of salary expenses.

Status – Fully implemented.

School action – School officials stated that the recommendation was implemented and adequate documentation is being maintained. The audit found documentation is being maintained to support the allocations. However, the documentation for the therapist salaries had a mathematical error that resulted in inaccurate allocations as follows.

Program	Audited	Difference	Reported
Preschool Full Day	$141,078	+15,364	$125,714
Preschool Half Day	16,977	-22,576	39,553
Integrated	9,295	+1,008	8,287
Early Intervention	42,397	+4,613	37,784
Related Services	5,151	+582	4,569
Evaluations	9,071	+1,009	8,062
Total	**$223,969**	**0**	**$223,969**

Recommendation 3

Establish procedures to ensure that direct program expenses are identified, segregated and accumulated by program.

Status – Not implemented.

School action – School officials stated that all employees must submit requisition forms identifying the program and type of expenses. However, the audit determined the School continues to use the student FTE method to allocate expenses for such accounts as children's activities, field trips, and educational supplies, rather than directly charging the programs that benefited from the expenses. Also, the School continues to allocate salaries rather than directly charging the amount to the programs where the teachers and teacher assistants worked. The actual salary amounts for 1:1 aides were not charged to the 1:1 aide cost center, rather an allocated amount of salaries was charged to the cost center. As stated in Recommendation 1, failure to do this will result in inaccurate accounting and reporting of expenses.

Recommendation 4

Ensure that bonus compensation is paid in accordance with the Manual.

Status – Fully implemented.

School action – School officials stated that all bonuses are now paid in accordance with the Manual. The audit of bonuses paid to two employees showed the School was in compliance with the requirements of the Manual.

Recommendation 5

Establish procedures to ensure that only expenses that are reimbursable according to the Manual are claimed.

Status – Fully implemented.

School action – School officials stated that its Controller reviews all expenses for appropriateness. The audit of a sample of expenses found the School did not claim for reimbursement any expenses specifically disallowed by the Manual.

Recommendation 6

Ensure that adequate documentation is retained for all expenses claimed.

Status – Partially implemented.

School action – School officials stated that proper documentation is now maintained. However, the audit determined the School did not maintain adequate documentation to support $3,100 in expenses for credit card payments that were charged to the early intervention programs in the educational supplies account. The account shows that $7,580 was paid to credit card companies. The audit also noted other credit card charges were posted to various accounts including cleaning supplies, dues and subscriptions, computer expenses, auto gas/repairs, and others. We are particularly concerned about the lack of documentation for these payments given that the prior audit identified numerous personal and questionable items including socks, laundry supplies, dog biscuits, snacks, shrimp, and soft drinks. The School also did not provide any documentation to show that its Controller reviewed and approved these expenses. In addition, the School did not provide adequate documentation to support a correction to the accounting system, including $3,300 in salaries.

Recommendation 7

Improve procedures to ensure that expenses are properly classified.

Status – Fully implemented.

School action – School officials stated that expenses are posted to the proper accounts. The audit determined that the School properly classified fringe benefits for grants and salaries for the program administrator and the clinical supervisor.

Recommendation 8

Improve procedures to ensure that items are capitalized in accordance with the Manual.

Status – Fully implemented.

School action – School officials stated that procedures were established to capitalize assets costing $1,000 or more and a useful life of two or more years.

Recommendation 9

Ensure that all programs are reported separately as required by the CFR Manual.

Status – Fully implemented.

School action – School officials stated that all programs are now reported separately on the CFR. The audit found that the School has reported all its programs, including 1:1 aides, on the CFR.

Recommendation 10

Repay $581 in federal grant funds for Grant 94-142.

Status – Fully implemented.

School action – School officials implemented the recommendation and the audit confirmed repayment of the grant funds.

Recommendation 11

Improve procedures to ensure that FTE attendance is calculated and reported in accordance with Section 175.6 of the Regulations.

Status – Not implemented.

School action – School officials stated that the recommendation was implemented. However, the audit determined the School did not calculate student FTEs in accordance with the Regulations. The School used 40 weeks to calculate FTE rather than the 39 weeks that should have been used to calculate student FTEs for the ten-month programs for this school year. As a result, FTEs were overstated by 0.339 for the ten-month programs and 1.249 for the summer programs.

	Ten-Month Program	Summer Program
Reported	73.788	57.333
Audited	73.449	56.084
Difference	0.339	1.249

Recommendation 12

When the tuition rates are certified, adjust tuition billings to reflect the appropriate FTE attendance.

Status – Fully implemented.

School action – School officials stated that billing calculations are adjusted for final tuition rates when certified. Both New York City and Nassau County revise the rates to reflect any changes in the certified tuition rates.

Recommendation 13

Improve procedures to ensure that evaluation components are accurately reported.

Status – Fully implemented.

School action – School officials stated that procedures for evaluations have been improved and evaluation logs are maintained to help ensure accurate reporting. The audit determined that the School maintains a schedule listing the student name and the type and dates of evaluations. This information is used to report the number of evaluations.

Recommendation 14

Ensure that loans are not made that conflict with the best interests of the school.

Status – Fully implemented.

School action – School officials stated that they have discontinued making loans. The audit of School records showed no funds were loaned out during 1998-1999.

Recommendation 15

Ensure that payments to related parties are properly disclosed on the CFR and the financial statements.

Status – Fully implemented.

School action – School officials stated that all related party transactions are now properly disclosed on the CFR and the financial statements. The audit found that the related party transactions were disclosed in the 1998-99 CFR including:

- $24,000 in payments to the son of the School's Executive Director for billing, payroll, and computer services;
- $35,000 in salary paid to the daughter-in-law of the Executive Director for her services overseeing tuition billings; and
- $47,000 in salary paid to the husband of the School's Assistant Executive Director for his services as Comptroller.

Recommendation 16

Ensure that adequate documentation is maintained for all expenses.

Status – Partially implemented.

School action – School officials stated that the record keeping functions have been strengthened and improved. However, the School could not provide adequate documentation to support three of the eight sample transactions (38 percent). The three transactions were payments to a credit card company and were charged to the educational supplies account for the early intervention programs.

Recommendation 17

Develop and implement an effective inventory control system.

Status – Fully implemented.

School action – School officials stated that they have implemented a system over fixed assets whereby identification tags and location documentation are utilized.

Recommendation 18

Improve procedures to ensure that invoices are adequately reviewed before payment.

Status – Partially implemented.

School action – School officials stated that the recommendation was implemented and all employees must use a requisition form and obtain department head and Comptroller approval to purchase all items. However, the audit of a sample of transactions determined only five of the eight transactions (62.5 percent) had written evidence of department head or Comptroller approval.

Recommendation 19

Develop and implement a system that identifies, segregates and accumulates expenses by program.

Status – Not implemented.

School action – School officials stated that they implemented the recommendation and made their best effort to allocate expenses based on programs benefited. However, the audit determined the School did not adequately address the recommendation. Refer to our comments for Recommendations 1 and 3.

Recommendation 20

Segregate and report food expenses separately on the CFR.

Status – Fully implemented.

School action –School officials stated that they implemented the recommendation. The audit found the food expenses are accounted for separately.

Recommendation 21

Establish and maintain subsidiary ledger accounts for revenue as required by the Manual.

Status – Fully implemented.

School action – School officials implemented the recommendation and now maintain subsidiary revenue accounts for the preschool full day, half day, and integrated programs.

Recommendation 22

Bill municipalities in accordance with Part 175.6 of the Regulations.

Status – Not implemented.

School action – School officials stated that they implemented the recommendation. However, the audit determined the School did not calculate student FTE in accordance with the Regulations. Refer to our comments for Recommendation 11.

Recommendation 23

Ensure that reporting to appropriate authorities is done accurately and submit amended statements if required.

Status – Fully implemented.

School action – School officials stated that they implemented the recommendation. The audit determined the School reported the necessary information to the appropriate tax authorities.

Recommendation 24

Ensure that all programs are reported separately on the CFR as required.

Status – Fully implemented.

School action – School officials stated that they implemented the recommendation. The audit determined that all programs were reported separately on the CFR.

Appendix A

Contributors to the Report
Crossroads School for Child Development

- Michael Abbott, CPA – Audit Manager
- Neil Smith, CPA – Auditor-in-Charge

Crossroads School
for
Child Development

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July 9, 2001

RECEIVED

JUL 17 2001

OFFICE OF
AUDIT SERVICES

Mr. Daniel Tworek
Director
Office of Audit Services
The State Education Department
Albany, NY 12234

Dear Mr. Tworek,

Enclosed is the School's response to the draft audit report (SE-0100-2) related to the audit of the Crossroads School for Child Development for the period July 1, 1998 through December 31, 2000. As requested, we have addressed and responded to each recommendation as presented in the report. In addition, we have developed a financial plan which is detailed on the following pages which addresses the School's financial condition taking into account that regional rates may not be implemented. Thirdly, although not specifically requested, some additional information regarding the program and it's restructuring is presented.

At this time we would also like to thank Mr. Neil Smith for all of his assistance in this process. It has been a pleasure working with Mr. Smith for the last year. This audit process has provided the school with valuable feedback regarding it's activities, and has helped us in working to restructure our program for the better. We also want to thank your office for it's patience and understanding regarding the time that it has taken to prepare this report. If any additional information is required please contact me at the number above.

Sincerely,

Damon Rader
Director of Operations / Comptroller

Audit Response

Audit of the

Crossroads School for Child Development

for the Period

July 1, 1998 through December 31, 2000

SE-0100-2

July 9, 2001

Crossroads School for Child Development
90 Henry Street
Inwood, NY 11096

Response to Prior Audit Recommendations

Recommendation 1

Improve procedures to ensure that allocation methods are fair and reasonable and supported by documentation.

Status - Not Implemented

We take exception to this finding as we feel that we have instituted procedures that ensure allocation methods are fair and reasonable and supported by documentation. Our primary allocation method utilized for direct care staff was based on units of service (Student FTEs). This is an acceptable method of allocating personal service costs according to Appendix J of the CFR Manual. Although it may be true that there were some individuals that only worked in one program and could have been charged directly, there are two problems with this. First, direct care staff often change classes or assignments during a year. Therefore, in order to account for these changes it would be necessary for each staff person to maintain a contemporaneous record of where they spent their time throughout the year. This adds a significant administrative burden to both our direct care and administrative staff who would have to accumulate this information. In addition, if you charge some people directly, it then becomes inaccurate to charge the remaining shared staff based on student FTEs. Using a mixed allocation method could significantly skew the charge for direct care staff to any give program. When a statistic that is representative of an entire population is applied to the total population the allocation is equitable. However, if the statistic is only applied to certain of the expenses, the allocation is not necessarily representative of the utilization of those expenses. The following is an example of this:

Example:

4 classroom teachers (1 class of 4410, 3 classes shared)
75% of children 4410
25% of children EI

Allocating all staff by Student FTE

4	Teachers
75%	
3	Total Teachers charged to 4410

Using a mixed allocation method

1	Teacher 100% to 4410
3	Teachers
75%	
2.25	Teachers charged to 4410
3.25	Total Teacher charged to 4410 program.

As you can see from this example using a mixed allocation method can inappropriately skew the charge to a particular program. Therefore, we feel that it is appropriate to allocate all these expenses even though some could be directly charged.

As for charging car expenses only to the Early Intervention Program, since we did not want to charge the 4410 programs for this expense we chose to charge it to the EI program which does not reimburse the school based on expenses reported on the CFR.

The allocation of telephone using the number of employees was an attempt to allocate these costs based on the number of lines used which is the recommended statistic used for telephone in Appendix J of the CFR Manual. Since most phones are shared by multiple staff members, telephone lines could not be attributed to specific programs. This allocation method was as close to the CFR method as we could reasonably get.

Recommendation 2

Maintain adequate records to enable the proper allocation of salary expenses.

Status - Fully Implemented

Recommendation 3

Establish Procedures to ensure that direct program expenses are identified, segregated and accumulated by program.

Status - Not Implemented

We take exception to this finding for the same reason as identified in our response to Recommendation Number 1.

Recommendation 4

Ensure that bonus compensation is paid in accordance with the Manual.

Status - Fully Implemented

Recommendation 5

Establish procedures to ensure that only expenses that are reimbursable according to the Manual are claimed.

Status - Fully Implemented

Recommendation 6

Ensure that adequate documentation is retained for all expenses claimed.

Status - Partially Implemented

The School has strengthened its internal control functions to ensure that all documentation for expenses claimed is properly maintained and filed. In addition, approval procedures have been modified to ensure that the controller reviews and approves ***all*** expenditures.

Recommendation 7

Improve procedures to ensure that expenses are properly classified.

Status - Fully Implemented

Recommendation 8

Improve procedures to ensure that items are capitalized in accordance with the Manual.

Status - Not Implemented

We take exception to this finding as the school does capitalize assets costing $1000 or more in conformity with the CFR Manual. Any exception to this was an accounting error not a lack of compliance.

Recommendation 9

Ensure that all programs are reported separately as required by the CFR Manual.

Status - Fully Implemented

Recommendation 10

Repay $581 in federal grant funds for Grant 94-142.

Status - Fully Implemented

Recommendation 11

Improve procedures to ensure that FTE attendance is calculated and reported in accordance with Section 175.6 of the Regulations.

Status - Not Implemented

FTE Calculation: Rationale for using 40 weeks as apposed to a 39 week enrollment period.

For the 1998/99 school year September 8th and 9th were used as staff development days with the first day of attendance for students being September 10th. Because September 10th falls on a Thursday, and it takes 3 consecutive days of attendance in a week to establish a period of enrollment (and thus the first payable week for that child), the maximum number of weeks that a child could attend for the year was 39 (3 weeks in Sept. and 4 weeks per month for Oct - June)- this is according to SED calculations.

Despite this, the Bureau of Contract Aid reimbursed the School for 4 weeks for September for all students who were approved to start on or before Sept. 8th and who attended or were legally absent on September 10th and 11th. This is because staff development days are to be counted towards the 180 mandated days (please see Board of Education regulations). As such the School was paid for 40 weeks for a child who was ***approved*** from Sept. 8th and who was ***present*** from September 10th to the end of June and the FTE was calculated to be 1.000. For a child who was not approved to start until Sept.10th (Thursday) and was present until the end of June, the School was reimbursed for 39 weeks, and the child's FTE was calculated to be 0.975. Thus if 39 weeks was to equal 1 FTE (as SED states it should) then both of these students would have to be calculated as 1 FTE even though the reimbursement for the one student was for less than 1 FTE. Based on our method of calculation, an accurate FTE was able to be reported on our CFR.

As supporting documentation I am submitting our Voucher Detail Report for payment for September and October 1998. You will note that for the first highlighted student ( ), we were reimbursed for 4 units (weeks). She had an approval and start date of 9/8/98 and thus we were reimbursed for 4 units ($1,393.20). For the second student highlighted we were reimbursed for 3 units ($1,044.90). This was because the approval/start date was not until 9/10/98. BCA payment is based upon 40 weeks and thus the FTE calculation was as well.

If we did not match the City's payment cycle of 40 weeks, we would not have been able to match up the payments received from the BOE to the student FTEs. In addition, as most children are enrolled for the full year, they are 1.0 FTEs at 39/39 weeks as well as 40/40 weeks. The difference associated with calculating an FTE for students entering or leaving during the school year using a 39 week vs. 40 week year would be minor. Also the issue of 39 vs. 40 weeks could not cause a variance in the student FTE for the summer program which was based on a 6 week period.

Recommendation 12

When the tuition rates are certified, adjust tuition billings to reflect the appropriate FTE attendance.

Status - Fully Implemented

Recommendation 13

Improved procedures to ensure that evaluation components are accurately reported.

Status - Fully Implemented

Recommendation 14

Ensure that loans are not made that conflict with the best interests of the school.

Status - Fully Implemented

Recommendation 15

Ensure that payments to related parties are properly disclosed on the CFR and the financial statements.

Status - Fully Implemented

Recommendation 16

Ensure that adequate documentation is maintained for all expenses.

Status - Partially Implemented

The School has taken additional steps to strengthen and improve its record keeping functions.
(See response to Recommendation # 6)

Recommendation 17

Develop and implement an effective inventory control system.

Status - Partially Implemented

The school has fully implemented an inventory system over fixed assets whereby identification tags and location documentation is utilized. Assets included in this inventory are computers, televisions, cameras, furniture and fixtures. In addition, each item is now tagged with an ownership decal.

Recommendation 18

Improve procedures to ensure that invoices are adequately reviewed before payment.

Status - Partially Implemented

The School has strengthened its internal control functions to ensure that all invoices are adequately reviewed before payment. Internal SOPs regarding the use of requisition forms and the approval process have been reviewed with the staff, and measures have been taken within the comptrollers office to ensure that the review process is followed without exception.

Recommendation 19

Develop and implement a system that identifies, segregates and accumulated expenses by program.

Status - Not Implemented

We take exception to this finding as we have made every effort to allocate expenses in a fair and reasonable method in conformity with the CFR Manual. We take exception to this finding for the same reason as identified in our response to recommendation Number 1.

Recommendation 20

Segregate and report food expenses separately on the CFR.

Status - Fully Implemented

Recommendation 21

Establish and maintain subsidiary ledger accounts for revenue as required by the Manual.

Status - Partially Implemented

The School has implemented a new accounting system effective July 1, 2001, which will maintain subsidiary revenue accounts for the preschool full day, half day and integrated programs.

Recommendation 22

Bill municipalities in accordance with Part 175.6 of the Regulations.

Status - Not Implemented

We take exception to this finding as billing for New York City students is done via Attendance Form D. As such, the School is entirely dependent upon the Bureau of Contract Aid for determining rate, payment, and payable week calculations on a monthly basis. It should also be noted that the monthly rate calculation by the BCA and thus payment to the agency is based upon 4 payable weeks per month. The School uses the same billing rate calculation for Nassau County students as that used by BCA.

Recommendation 23

Ensure that reporting to appropriate authorities is done accurately and submit amended statements if required.

Status - Fully Implemented

Recommendation 24

Ensure that all programs are reported separately on the CFR as required.

Status - Fully Implemented

Supplementary Information

In addition to the audit response and the financial plan which is enclosed, we would also like to take this opportunity to tell you about some other changes to our program. For the last couple of years the School has been in a transitional phase, and as we come into this new year we have completed some planned restructuring. The School's goals as outlined in our restructuring plan are as follows;

1. To continue to consistently deliver quality services to the children and families we serve;
2. To continue to provide intensive staff training in state-of-the-art educational and therapeutic approaches;
3. To operate in accordance with ***all*** rules and regulations set out by the State Education Department;
4. To develop a financial plan which will return the School to a position of stability and ongoing viability;
5. To develop a plan to repay the monies owed following the SED audit of FY 1995 and the subsequent disallowance;
6. To develop university affiliations for the training of future professionals in multiple areas.

The School initiated it's restructuring process in July, 1999 and the introduction of changes has been a gradual process for the last two years. The single most important area of our restructuring has been with respect to school personnel, from which all other aspects of change have flowed. The School since the end of F/Y 1999, has made significant changes to personnel within the school, and to agencies that have dealings with the School. In a number of instances, new positions have been created within the School, and some positions have been done away with altogether. These changes to personnel have allowed the School to operate in a more streamlined and effective manner, while also facilitating necessary change in a number of areas of the program. The following positions have all been filled with new personnel in the last two years, or have been done away with completely:

1. The Assistant Executive Director position has been done away with;
2. Director of Operations
3. Comptroller
4. Educational Director
5. CPSE Coordinator
6. EI Coordinator
7. The School has retained new legal representation
8. The School has retained a new accounting firm (Loeb & Troper)

Another area of ongoing development is with respect to staff training. The School has worked in two ways on this issues. We have not only maintained, but have enhanced training procedures for staff, and secondly, have gone on to develop formal relationships with many graduate schools in the New York City / Long Island area. These schools include, Hofstra Univ., Fordham Univ., Adelphi Univ., Molloy College, Touro College, St. Johns Univ., and Long Island University. The Crossroads School has opened it's doors to these institutions, and has been utilized as an internship site for their graduate students in the following areas: Education, Educational Administration, Speech/Language Therapy, Occupational Therapy, Social Work, and Psychology. In return the School has been able to benefit by being able to send current staff to these universities for additional training, as well as being able to tap into a wide variety of resources at these universities. Our staff have also been involved in ongoing research with these universities, some of which has led to publications and presentations at national conferences.

In addition to new personnel, much of the restructuring process has involved revisions to internal policy and procedures, as well as to the strengthening of the school's own internal control functions, and quality assurance measures. The School has modified and strengthened its own Standard Operating Procedures to help ensure that compliance to all rules and regulations is maintained. This has taken place in all areas (financial, educational, personnel, clinical, etc...). With the feedback from this current audit, as well as from considerable time spent working with auditors from the Office of the Auditor General, we have been able to improve upon current policies, and correct areas of noncompliance.

The School has also developed a web site (Launch date 7/16/01) designed to enhance communication between parents and staff, give parents of current students and prospective students easy access to information about the school, and additionally, to help guide parents to other resources on the web.

The oversight provided by the SED and OAG as well as other governmental agencies over the last couple of years has been extraordinarily beneficial in enabling the School to correct and strengthen areas of weakness. We feel that the our efforts over the last two years in the restructuring of the School has allowed us correct areas of non-compliance, and address the concerns that the SED has regarding our viability and ability to provide quality services to the children and families that we serve in the NYC/Long Island area. We look forward to continuing to work with the SED and BOE in ensuring that our children and families receive services of the highest quality, as well as ensuring that our agency abides by all rules and regulations.

Financial Plan & Repayment Plan

The School respectfully submits the attached financial plan for your consideration. The plan at this time has been thoroughly reviewed and discussed at multiple meetings that we have had with the Office of the Auditor General. Following these meetings, the repayment plan proposal was submitted to Mr. Michael Hadaway at the Bureau of Contract Aid for his review. Attached is a copy of our submission to Mr. Hadaway. We are currently awaiting word from his office on this plan.

The financial plan which is detailed on the attached pages addresses the School's financial condition taking into account that regional rates may not be implemented. The current plan allows the School to repay the monies owed without adversely affecting its CPSE funding which is crucial to it's ongoing viability. This in turn allows the School to continue to provide quality services to the children and families we serve. This will largely be done by expanding our Early Intervention program, which allows for a surplus to be generated. This surplus will then be used to repay the monies owed as detailed in the repayment plan. I should note that the plan does not call for the downsizing of our CPSE program in any way as there is sufficient room within the School to allow for this EI expansion without infringing on the CPSE program.

The School at this time has already started the process of building up our EI program, both in terms of students and the necessary staff. We have so far met with good success in this endeavor, and fully expect that we will meet our goals for the development of the EI program.

CROSSROADS SCHOOL FOR CHILD DEVELOPMENT
CPSE SCHOOL PROFILE - FISCAL YEAR 2002

RATES		
	10 Month	***2 Month***
Full Day	$23,757.00	$3,960.00
Half Day	$24,611.00	$4,101.00
Integrated	$16,549.00	N/A
Integrated Regular Education Students	$6,000.00	N/A

CLASSROOM RATIOS / MAXIMUM REVENUE			
	No. of Classes	***Maximum Revenue 10 Month***	***Maximum Revenue 2 Month***
8:1:2 Full Day	1	$190,056	$31,680
9:1:2 Full Day	1	$213,813	$35,640
12:1:2 Full Day	4	$1,140,336	$190,080
12:1:2 Half Day	1	$147,666	$24,606
12:1:2 Integrated	1	$99,294	$0
20:2:2 Integrated	2	$330,980	$0
Integrated Regular Ed	26 Children	$156,000	$0
	Sub-Total	$2,278,145.00	$282,006.00
	Total	$2,560,151.00	

**** Please note that the CPSE school profile for FY 2002 will be the same as it is for FY 2001.***

CROSSROADS SCHOOL FOR CHILD DEVELOPMENT

CPSE PROJECTED BUDGET - FISCAL YEAR 2002

CPSE REVENUE			
	10 Month Program	***2 Month Program***	***Annual***
CPSE	$1,936,423.25	$239,705.10	$2,176,128.35
Grants			$80,000.00
Evals / Related Services			$80,000.00
Total	$1,936,423.25	$239,705.10	$2,336,128.35

* Total Annual Revenue projection is based upon 85% occupancy rate.
* Integrated Regular Ed. is to be funded through a combination of UPK and Voucher (ACD) payments.

CPSE EXPENSES		
Category	***Monthly***	***Annual***
Payroll	$143,023.26	$1,716,279
Taxes and benefits	$13,587.21	$163,047
Rent	$11,037.82	$132,454
Electric	$819.05	$9,829
Oil	$1,111.77	$13,341
Telephone	$863.86	$10,366
Phone Lease	$520.19	$6,242
Photocopier Lease	$1,334.88	$16,019
Stamp Machine Rental	$164.10	$1,969
Security Monitoring	$48.63	$584
Health Ins.	$3,813.95	$45,767
Insurances	$1,589.14	$19,070
Computer Lease	$138.21	$1,658
Educational Supplies	$953.49	$11,442
Therapeutic Supplies	$190.70	$2,288
Food & Eating Supplies	$1,144.19	$13,730
Cleaning Supplies	$524.42	$6,293
Janitorial Services	$2,669.77	$32,037
Pest Control	$61.98	$744
Fire Monitoring	$185.93	$2,231
Advertising	$1,072.67	$12,872
Legal Services	$238.37	$2,860
Accounting Services	$1,191.86	$14,302
Consulting Services	$3,813.95	$45,767
Office Supplies	$575.91	$6,911
Postage	$133.49	$1,602
Dues & Subscriptions	$95.35	$1,144
Bank Fees	$57.21	$687
Pension Contributions	$635.02	$7,620
Pension Expense	$397.28	$4,767
Misc.	$2,373.83	$28,486
R & M	$309.88	$3,719
Total	$194,677	$2,336,128
Total Surplus	**$0**	

CROSSROADS SCHOOL FOR CHILD DEVELOPMENT
E.I. PROJECTED BUDGET - FISCAL YEAR 2002

EARLY INTERVENTION CENTERBASED PROGRAM

Program Profile

Number of Classes: 5 half-day sessions (2.5 "Classrooms")
Capacity: 60 Students
Staffing Requirements: FTE= 2.5 Teachers / 5 Teacher Assistants
Related Service Providers: SP, OT, PT, SW, PSYCH
Other: Administrative , Nursing

REVENUE		
60 EI Students		
120 Sessions of SP per week	@ $51 per session	$257,040.00
100 Session of OT per week	@ $51 per session	$214,200.00
30 Sessions of PT per week	@ $51 per session	$64,260.00
Classroom	@ $39, $56, or $104 per session	$491,400.00
	* Total Potential Revenue =	$1,026,900.00
* Based on 42 week year and 100% delivery rate.		
Total Revenue	Based on 85% delivery =	$872,865

EXPENSES		
Classroom Salaries (2.5 Classrooms)	$65,000 per classroom	$147,500.00
Therapists (5) (2.4 SP, 2 OT, .6 PT)	at average of $40,000	$200,000.00
Psychologist (.5)	@ $40,000	$20,000.00
SW (1)	@ $37,000	$37,000.00
Nurse (.21)	@ $35,000	$8,333.00
Admin (.25)		$48,000.00
* Other Expenses	@ $1,650 per child	$99,000.00
Taxes and Benefits (15%)		$84,000.00
	Total	$643,833.00
* "Other Expenses" include all areas covered under Expenses for the CPSE children.		
Therapist need based upon 50 sessions per week in schedule (10 per day).		
Approximate Surplus =	**$229,032**	

EARLY INTERVENTION HOME BASED PROGRAM

REVENUE	
30 EI Homebased Children	
Average Child - 3 sessions per week	$20 per session
52 week potential	
At 90% delivery - Total Revenue =	$84,240

EXPENSES	
Admin. Costs	$40,000
- Includes Program Coord. & Billing	
Approximate Surplus =	$44,000

EARLY INTERVENTION PROGRAM - GRANTS

Govt. Grants (Legislative Budget Member Item, NYC Council, NYS Senate, Office of the Borough President for Queens, Town Supervisor for Nassau, Far Rockaway City Council).	
Total Grants =	$40,000

Total Early Intervention Surplus =	$313,032

Crossroads School
for
Child Development

90 Henry Street
Inwood, N.Y. 11096

(516) 239-2182
(718) 327-3401
FAX (718) 327-3132

June 22,2001

Michael Hadaway
Director
Bureau of Contract Aid
65 Court Street, Room 1503
Brooklyn, NY 11201

Dear Mr. Hadaway,

Enclosed is the Schools analysis of overpayments made to the School for fiscal years 1995 - 2000. As you will note we are in agreement on most years, with the exception of the balance due for FY 1995. We have calculated a balance due of $390,284.31 as of January 29, 2001, with three (3) additional recoupments of $25,179.65 made on the February and March 2001 tuition payments for a balance due of $314,745.36. In addition, attached is a Repayment Agreement for your consideration. If approved by your office, please contact me and I will submit a signed agreement to your office. I will be available on July 2 for discussion of these matters if needed. Thank you for your consideration in these matters.

Sincerely,

Damon Rader
Director / Comptroller

Crossroads School for Child Development

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REPAYMENT AGREEMENT

The overpayment due to a rate adjustment for fiscal years 1995 through 2000 in the amount of $2,659,324.40 will be recouped in 4 monthly installments of $20,000, followed by 96 monthly installments of $25,000, with a final lump sum payment of $29,324.40 made in the 101 month. The School requests that these payments *not* be deducted from monthly tuition payments and that the School be allowed to make payments directly to the New York City Board of Education, Bureau of Contract Aid. Payments will be made by the last day of each month.

Payment Period	Monthly Recoupment	Amount Recouped	Balance Due at end of Payment Period
Sept, 2001 - Dec, 2001	$20,000	$80,000	$2,579,324.40
Jan, 2002 - June, 2002	$25,000	$300,000	$2,279,324.40
July, 2002 - June, 2003	$25,000	$300,000	$1,979,324.40
July, 2003 - June, 2004	$25,000	$300,000	$1,679,324.40
July, 2004 - June, 2005	$25,000	$300,000	$1,379,324.40
July, 2005 - June, 2006	$25,000	$300,000	$1,079,324.40
July, 2006 - June, 2007	$25,000	$300,000	$779,324.40
July, 2007 - June, 2008	$25,000	$300,000	$479,324.40
July, 2008 - June, 2009	$25,000	$300,000	$179,324.40
July, 2009 - Dec, 2009	$25,000	$150,000	$29,324.40
Jan, 2010	$29.324.40	$29.324.40	$0

Approved By:

______________________________ Date

Crossroads School for Child Development #C163
Fiscal Years 1995 - 2000 Reconciliation

Year	(Amount Due)	Overpayment
1995		* $314,745.36
1996		$804,334.89
1997		$273,438.80
1998		$666,576.84
1999		$594,871.46
2000		$5357.26
Total Due		**$2,659,324.40**

* FY 1995 Analysis:

Total Overpayment:	$692,440.11
Recoupment:	$377,694.75 (as of 4/1/01)
Balance Due:	$314,745.36

Total Overpayment due the Board of Education: $2,659,324.40

Crossroads School for Child Development

90 Henry Street
Inwood, N.Y. 11096

(516) 239-2182
(718) 327-3401
FAX (718) 327-3132

January 29, 2002

Michael Abbott
The State Education Department
Office of Audit Services
Albany, NY 12234

Dear Mr. Abbott,

As stated in our July 9, 2001 response to the initial draft audit report, and the additional comments included in the body of this letter, we still take exceptions to certain comments included in the 1999/00 audit report. However, other than those findings that we have responded to, we will accept the balance of the audit report. In addition, the School agrees to implement recommendations one (1) through six (6) of the current audit report.

Allocation Methodology

- The School maintains that we have instituted procedures that ensure allocation methods are fair and reasonable and supported by documentation. We understand the Departments concerns regarding our current allocation methodology, however, as noted many of our staff work in both programs at different times during the year. This fact makes direct allocation difficult, and using a mixed allocation methodology could skew the charge for direct care staff to any given program. If this issues remains of sufficient concern to the Department, the School for the coming fiscal year (02/03) will work to restructure its programs, develop additional internal systems and maintain additional records to allow direct charging of expenses where possible and appropriate.

Financial Plan

- The plan that was originally submitted to the NYC Office of the Auditor General was at their request a one year projection. The School at the Departments request could submit a multi-year projection, and will based on the Departments recommendation develop a long term financial plan.

- The projection costs for the early intervention - home based program although not explicitly detailed was implied. The teachers and therapists who provide the services are reimbursed at a rate which leaves the School with a balance of $22.00 per session after the provider has been paid. This is the figure that is reflected in the plan. It should be noted the number of $20.00 which appears in the original financial plan is in reality $22.00.

- The salary projections that the school used when detailing the projected EI budget were based on actual salaries of therapists working within the EI program at the time the budget was developed.

- The figure of 15.0 percent for fringe benefits for the early intervention program was used at the request of the OAG so as to be sure to not underestimate costs.

Repayment Plan

- The NYC Board of Education has accepted the Schools repayment plan. The School has agreed to repay the NYC Board of Education its outstanding debt at a 3.5% interest rate. The Board's Office of Legal Services is currently drafting a stipulation of this arrangement. The monies owed will be payed back over the next eleven (11) years.

- The School has worked for the last couple of years to reduce the amount owed to the pension plan. The plan contribution has been cut to 1% so as not to increase it's liability. The amount owed to the plan currently stands at approximately $180,000.

On behalf of the Crossroads School, I would once again like to thank the Departments staff with whom we have worked with for the last year. The feedback and recommendations that we have received have been invaluable in our restructuring process. We continue to be committed to providing quality services to the children and families that we serve in the NYC/Long Island area serving the children. We look forward to continuing to work with the Department to ensure that the School continues to grow stronger, and provides comprehensive services to the children we serve. If I can provide you with any additional information please do not hesitate to contact me.

Sincerely,

Damon Rader
Director / Comptroller

Appendix C

NEW YORK STATE EDUCATION DEPARTMENT
OFFICE OF AUDIT SERVICES
AUDIT REVIEW PROCEEDINGS

Requests for Audit Review

It is the policy of the State Education Department to consider for review matters of significant disagreement which result from a final audit report issued by the Office of Audit Services.

An organization requesting an audit review must make a written application to the Associate Commissioner for Planning and Policy Development, New York State Education Department, Room 128 EB, Albany, New York 12234 within 30 days of receiving the final audit report. An organization may request a review of an audit whenever the final audit report directs the recovery of funds from the organization and one or more of the following conditions is met:

- Recovery of funds would cause immediate and severe financial hardship to the organization, thereby affecting the well-being of program participants;
- The organization's violation was caused by erroneous written guidance from the State Education Department;
- The State Education Department failed to provide timely guidance on the matter or condition when the organization had previously requested such guidance in writing; and/or
- The report contains errors of fact or misinterpretation of laws, statutes, policies or guidelines.

Organizations requesting an audit review must submit a written application describing how one or more of the above conditions have been met. This application must include all evidence and information the organization believes are pertinent to support its position.

An audit report which recommends improvements in internal controls of administrative or financial systems, but has no material financial impact on the organization, will not be considered for an audit review proceeding.