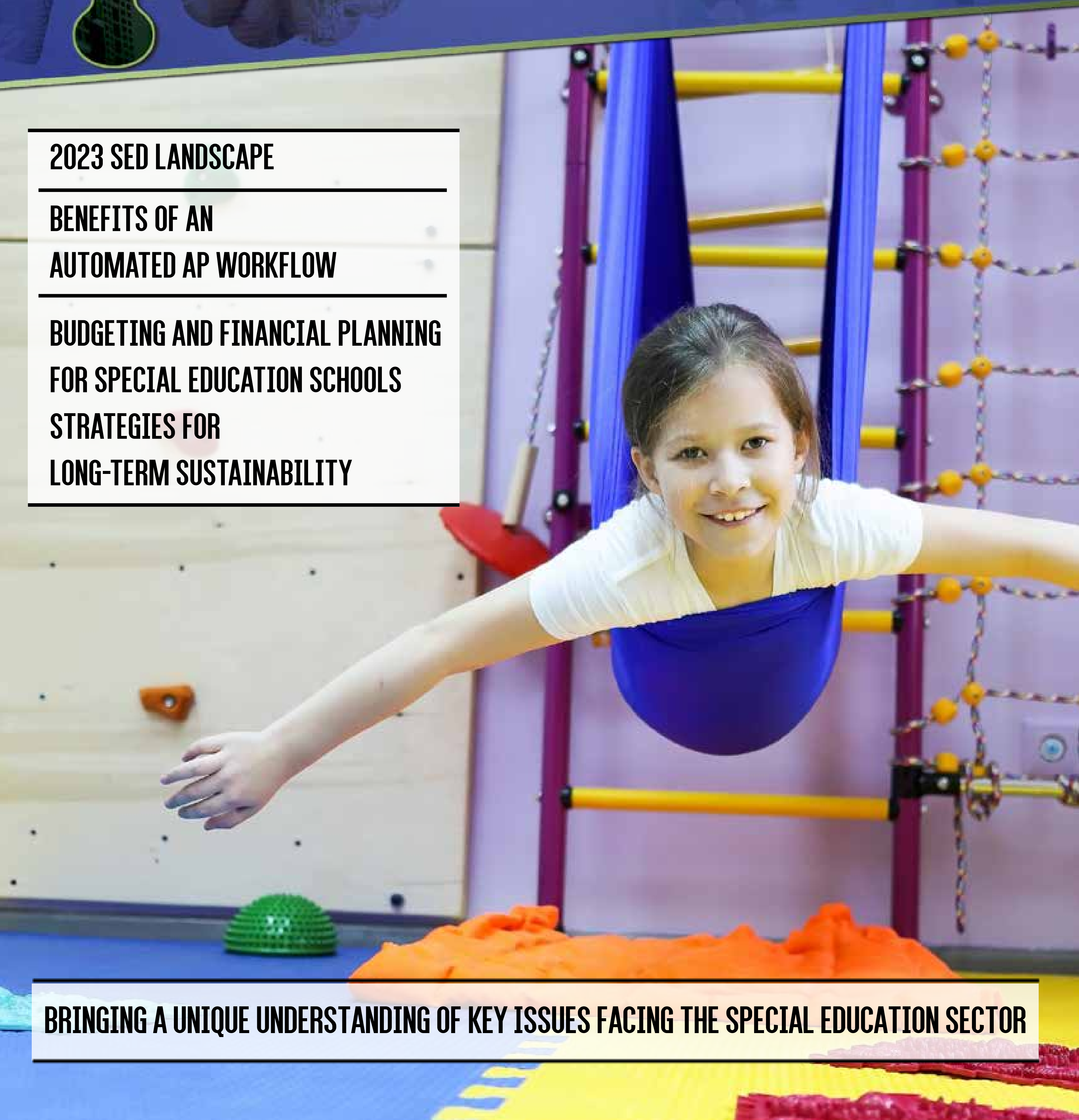
CERINI & ASSOCIATES, LLP | CERTIFIED PUBLIC ACCOUNTANTS
PRESENTS

SPECIAL ED-ITION

VOL. 27
SPRING 2023



BRINGING A UNIQUE UNDERSTANDING OF KEY ISSUES FACING THE SPECIAL EDUCATION SECTOR

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2023 SED LANDSCAPE

Over the last few years, special education has undergone significant challenges and change. Between educator shortages and turnover, student learning loss brought about by remote learning and the pandemic, and the growing demand of students needing service (*Approximately 1 in 44 students diagnosed with ASD in 2021, up 178% from 2000*) without sufficient placement to accommodate; the special education system is struggling to provide effective academic, counselling, and related service support. The impact of COVID on our most vulnerable students is undeniable. Those with learning differences are having difficulty with the return to full-time, in-person schooling. Related service needs and behavioral intervention are both on the rise in special education providers and unfortunately, providers often do not have sufficient resources to meet these needs.

In the downstate region, due in part to slumping enrollment at the district level, districts are holding onto more of the higher functioning preschoolers in need of service, resulting in higher intensity placements coming to 4410 providers. This creates significant challenges for special education providers, and changes in the needs and structure of providers, many of which are not adequately built into the tuition rates these schools are working with. In addition, many providers are finding the need to change their classroom ratios to more intense ratios in order to keep their school enrollment up.

We are all familiar with the staffing shortages that exist, as the number of students going into the field is shrinking, and many of the staff currently in the field are not necessarily enamored with their chosen vocation. According to Houghlin, Mifflin, Harcourt's latest Educator Confidence Report, 78% of teachers have a negative view of the profession, and 41% are open to the possibility of leaving. While these are global figures encompassing all teachers, for many of the special education schools, this is of particular concern, as the salaries they are paying are significantly lower than salaries paid by school districts and their fringe benefit rates are a far cry from the 62.39% New York statewide rate paid to public school staff.

The 11% rate increase provided for the 2022/23 year was a much-needed boost for special education providers, but without a continued commitment to parity by the NY State legislature, Division of Budget, and Governor's Office, the staffing shortages are just going to continue. Comparable and predictable rate increases are essential at all levels, early intervention, preschool, and school age to ensure that appropriate resources are available across the full continuum of the educational cycle. Educational needs of children should be integrated and appropriately funded at all levels to ensure the most effective and efficient model.

The preliminary proposed budget released by Governor Hochul's office did virtually nothing for the early intervention and special education provider worlds. Advocacy groups such as the Coalition, IAC, ACTS, and more are pushing fiscal assistance, and have initiated lobbying campaigns looking for significant increases for the 2023/24 year. While the DOH does support an 11% increase, with the State budget in the condition its in due to the economy and a depressed Wall Street, we are not sure this will play out the way everyone hopes it will.

Unfortunately, we are all too familiar with these issues. It seems that everyday there are new issues impacting the sector:

- We are hearing that the Department of Health, Bureau of Childcare has been conducting audits of providers, reviewing staff credential, required study plans, etc. If they don't like what they find, they have been closing classrooms and modifying day care licenses to show a reduced level of children capacity.
- The NYCDOE has shared it is in the process of finalizing a FAQ document to aid the field in understanding and implementing the enhanced program it put in place to bring 4410 programs and the DOE's UPK/3PK programs more into alignment. In addition, the DOE intends to improve its communication with the field, as well as making technical revisions to its vendor portal to facilitate ease of access and use.
- As many of you know, the Office of the Medicaid Inspector General has started doing audits of EI providers. From what we are hearing, it is not the attention of the OMIG to audit every provider in the state (*much the way the OSC did with respect to 4410 providers*). While the OMIG released audit protocols with respect to these audits, they are still refining these protocols based upon what they are finding during the audit process. There are some concerns regarding policies and practices during the COVID pandemic, and the need to pivot systems. While the OMIG stated that they would be reasonable during the pandemic years there are no definitive answers as to what that means.
- NYSED's rate setting unit continues to be short staffed, which continues to delay the waiver process. For those agencies that have received any CARES Act funding (*PPP, ERTC, Daycare Stabilization*) that acts as offsetting revenue, it could be masking changes in operations that would have resulted in overspending during the last three years. It is important to determine if prospective rates calculated by the Rate Setting Unit properly reflect what your rates would be if the CARES Act funding wasn't there. In addition, if you have overspending in the 2022/23 year, you should consider your spending patterns over the last 3 years in developing your waiver requests.
- While winter just ended, if you are going to provide remote instruction (*such as on a snow day*), you need to have a plan in place that include policies and procedures to ensure the availability of devices, internet access, provision of special education and related services for students with disabilities, and the expectations for time spent in different remote modalities. Schools and programs must provide an opportunity for public comment at least thirty days prior to the plan's adoption. These plans must be posted on the school or program website or other online platform if your school or program does not have a website.
- Many of you who have a day care license through OCFS received some level of Day Care subsidy funding. There were two rounds of this funding with the first round less restrictive than the second round. While the day care subsidy funding is federally originated, based upon our review of the compliance supplement, this funding should not be included in your statement of federal awards and thus does not get considered for determination if you are or are not subject to a federal uniform guidance audit.
- The application for the 3rd phase (*out of 5*) of the **healthcare worker bonus (HWB)** will be open from April 1, 2023 to April 30, 2023. From an accounting perspective the nonprofit committee of the New York State Society of CPA's recently released their nonauthoritative guidance on how the HWB should be accounted for. It is recommended that the HWB should be accounted for as an agency transaction. As such, for financial reporting purposes, when the HWB is received it is recorded as a liability, and when the bonus is paid to staff the liability is relieved. It is the consensus of the committee that you have no variance power over these funds (*you are just functioning as a conduit through which the funds are paid to your qualified employees*). The CFR interagency committee is still exploring how they want the HWB reflected on the CFR.

We will continue to monitor the SED landscape and provide you with important updates as they become available. Please do not hesitate to connect with us if you have any question.

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BENEFITS OF AN AUTOMATED AP WORKFLOW

As the first quarter of 2023 comes to a close, the return to *"normal"* that began in 2022 has shifted the focus of schools from the crisis of the Pandemic to beginning to analyze what policies, systems, and procedures are here to stay and where businesses can improve the efficiency of their workflow. During the Pandemic, new software seemed to be developed or adapted by organizations overnight to help solve the everyday problems of working in a remote environment; such as Microsoft Teams, Slack, Bill.com, and Certify.com, to name a few. Some of these software and SaaS products were already around prior to the Pandemic, but they were rarely implemented or fully utilized by small to mid-sized providers… then COVID came around and thrust the whole world into a new era of technology implementing these types of solutions as part of their everyday business function. One area where we continue to hear is a major pain point for providers is the AP process workflow, where employees continue to have to dedicate a lot of time in managing, entering, getting the proper approvals, and ultimately paying its vendors.

Any size school can benefit from adopting and implementing an efficient workflow through AP automation utilizing a number of SaaS providers such as Bill.com, Certify, Stampli, Tipalti. Plus, the benefits of utilizing a centralized system can also help reduce stress on the employees managing the AP process by creating quicker AP turn around times for vendor payment, a more systematic approval chain, data insights, and improved cash flow management. Furthermore, one major area of concern in organizations has always been the detection and prevention of fraud related issues, which the powerful AI built into many of these software solutions can help identify.

Most software solutions provide you with a dedicated AP email address where vendors can submit invoices ensuring all invoices are captured and allowing for a more centralized process. When vendors send their invoices to the dedicated email address, the powerful AI data recognition will begin the process of identifying the information on the invoice such as date, invoice number, line items, amounts, and most importantly vendor name. Typically, these invoices will ping an employee that an invoice has been imported into the system and is ready to review. The AP clerk can go into the software, perform a review and properly assign a general ledger code to the invoice. Once the invoice is reviewed, it can be submitted to the next reviewer or approver within the school's control process. With each step, an audit log of the workflow is logged in the background so if it is ever needed for review purposes, it can easily be retrieved. Many of these applications will begin to learn how you are coding invoices and will begin to automatically predict where to code the various expense line items, in turn this begins to make the process more efficient reducing clerical errors. Lastly, for many of these applications, once the invoice makes its way through the approval process, you can pay the invoice directly through the application. This is a major benefit because you no longer need to separately log into the bank, write checks, or log into a vendor's portal, it can all be done through a single system. Once again this helps to reduce the time it takes to move through the process.

Now with the increased efficiency and transparency of the AP process in a single electronic system, *what additional benefits are there?* Since AP is being entered in near real time, the data analytics of the total amount of AP due, payment terms, etc. can be visually displayed in an easy to digest way. No longer is a school limited by the time their AP clerk takes to enter an invoice into the system, generate the AP aging, and provide it to management. The powerful AI takes care of that and typically at any given point in time a business can have a real picture of their AP picture, this in turn helps planning cash flow and gives management a heads up if terms need to be renegotiated or when cash is plentiful, take advantage of early pay discounts.

Lastly, there are the benefits of data integrity and an effective audit trail. Most providers that have gone through either their annual financial statement audit or a government audit, understand the painstaking task of pulling documentation when the auditors make their selections. Well now at least from an AP perspective, your entire AP process is in a single, easy to access place where documentation supporting the entire AP chain can be pulled and provided with a time stamped audit trail. This will help to reduce the time an effort needed by staff to accomplish this task. Further, many of these AP automation providers will include with their subscription, a digital file vault where vendor W-9's and other pertinent information can be securely stored. One thing to consider with any automated solution you may be looking to implement is to always ask if they undergo any sort of independent compliance audit which will result in a SOC-1 report… similar to what you can obtain from your payroll company regarding internal controls surrounding their processes and procedures.

Automating any major business function can seem daunting, however it doesn't need to be. Contacting a professional that specializes in implementing these systems can make the process as painless as possible and help guide you to make those apprehensive feelings go away making it a positive experience. In the end it is important to find the right solution for your organization as not all solutions are created equally, so a proper vetting process to find the *"Goldilocks"* solution for your organization is imperative. If the Pandemic has taught us anything, it is that the need to implement automated solutions as part of your business model is imperative.

ALBERT BORGHESE, CPA
MANAGER

BUDGETING AND FINANCIAL PLANNING FOR SPECIAL EDUCATION SCHOOLS
STRATEGIES FOR LONG-TERM SUSTAINABILITY

Many of New York's special education schools struggle with financial sustainability due to limited funding, increasing costs, and changing regulations. These schools also operate under a cost-based reimbursement system with few avenues for profit. Together, these factors also make it difficult for these schools to plan for the future. However, with proper budgeting and financial planning, special education schools can achieve long-term sustainability and continue to provide high-quality education for students with disabilities. In order to create a suitable budget and financial plan special education schools should:

1. DEVELOP A COMPREHENSIVE BUDGET PLAN

The first step in achieving long-term sustainability for special education schools is to develop a comprehensive budget plan. This includes identifying all sources of revenue, such as state and federal funding, grants, and donations. It also includes outlining all expenses, such as salaries, facility costs, and educational materials. By creating a detailed budget plan, special education schools can get a clear picture of their financial situation and identify areas for improvement.

2. USE KEY DATA POINTS TO INFORM BUDGET DECISIONS

Special education schools should be aware of what drives their costs and revenue and use this data to inform budget decisions. For example, because special education schools operate under a cost-based reimbursement system, student enrollment is a key driver of both revenue and expense. Student enrollment dictates how much revenue the school will receive, the level of related services that will be incurred, and the number of classrooms needed; which in turn determines the number of teachers, teacher assistants, and other staff to be hired. Schools are reimbursed based upon their prospective rate, which is reconciled upon the completion of their consolidated fiscal report. If programs overspend their rates, they are not reimbursed for the overages, and if they underspend, the underspending needs to be returned. As a result, it is essential for schools to have a strong understand of their revenue and expenses and project out their costs throughout the year to ensure appropriate spending patterns. Special education schools also have an opportunity to make a small profit in fee-based programs such as special education itinerant teacher services and evaluations. Therefore, schools should look for ways to control costs within these programs to create discretionary funding. By using data to make informed decisions, special education schools can ensure that they are allocating their resources in the most effective way possible.

3. ESTABLISH FINANCIAL GOALS AND METRICS

In addition to developing a comprehensive budget plan, special education schools should establish financial goals and metrics. This includes setting targets for revenue and expenses, as well as tracking **key performance indicators (KPIs)** such as student enrollment and retention rates. Despite being constricted by a cost-based reimbursement system, schools can achieve slight profitability through their fee-based programs and by taking advantage of the 1% corridor. Under the 1% corridor, SED will not reconcile tuition based programs whose spending is within 1% of their prospective rate. This affords schools the opportunity to underspend by up to 1% and retain the small profitability to cover losses in other programs or improve overall fiscal strength of their organization. By establishing financial goals and metrics, special education schools can measure their progress towards long-term sustainability and adjust their strategies accordingly.

4. BUILD STRONG RELATIONSHIPS WITH STAKEHOLDERS

Special education schools should build strong relationships with stakeholders such as families, community organizations, CSE/CPSE, their RA, their line accountant at the rate setting unit, donors, politicians, and more. By collaborating with these groups, special education schools can identify funding opportunities, gain support for their programs, and build a strong reputation in the community. Developing these relationships can also be a great way to increase enrollment. Increasing the community's awareness of your school may lead to families going straight to your school should their children, or their friends' children, need special education services. In addition, by keeping lines of communication with your programmatic and fiscal staff at SED, this will assist in expansion, modifications, and waiver requests.

5. SEEK OUT COST-SAVING OPPORTUNITIES

Special education schools should seek out cost-saving opportunities wherever possible, especially with respect to non-direct care costs. This includes leveraging technology to reduce administrative costs and negotiating favorable rates with vendors. In addition, some vendors also offer special savings to not-for-profits which should be taken advantage of when possible (*for instance Techsoup for software*).

6. MONITOR AND ADJUST THE BUDGET PLAN REGULARLY

Finally, special education schools should monitor and adjust their budget plan regularly. This includes reviewing revenue and expenses on a regular basis and adjusting the budget plan as needed when student enrollment changes to ensure long-term sustainability. Performing budget to actual analysis on a monthly basis can assist schools in understanding fluctuations in expectations and allow schools to make mid-year corrections. By regularly monitoring and adjusting the budget plan, special education schools can stay on track towards achieving their financial goals. In addition, throughout the year, programs with tuition based programs should prepare mock CFR's to make sure they understand how spending per care day aligns with their prospective rates and to better understand if non-direct care or total cost screens are being hit.

In conclusion, achieving long-term financial sustainability is essential for New York's special education schools. These schools often find themselves heavily constrained by the fact that they operate within a cost-based reimbursement system. However, by developing a comprehensive budget plan and closely monitoring key data throughout the year, these schools can achieve long-term financial sustainability and continue to provide high-quality education for students with disabilities.

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