
Audit Report

Hamilton-Fulton-Montgomery
Board of Cooperative Educational Services

For the Period

July 1, 1997 through June 30, 1998

BOC-1298-6

January 19, 2000

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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January 19, 2000

Dr. Geoffrey H. Davis
District Superintendent of Schools
Hamilton-Fulton-Montgomery BOCES
PO Box 665
Johnstown, New York 12095-0665

Dear Dr. Davis:

The following is our final audit report (BOC-1298-6) on the Board of Cooperative Educational Services Hamilton-Fulton-Montgomery Counties for the period July 1, 1997 through June 30, 1998. The audit was conducted pursuant to Sections 305 and 1950 of the Education Law in pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

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

Ninety days from the issuance of this report, BOCES officials will be asked to submit a report on actions taken as a result of this audit.

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

Sincerely,

Daniel Tworek
Director

Enclosure

cc: Commissioner Mills, R. Cate, J. Kadamus, T. Sheldon, C. Foster (DOB),
H. Hoffman (OSC), B. Mason (OSC)

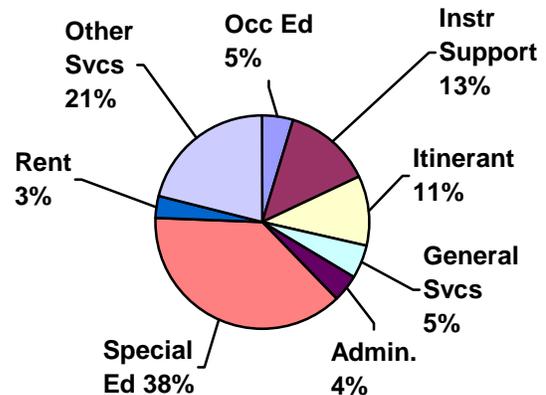
bcc: G. Illenberg, S. Spear, B. Stambler

Executive Summary

Hamilton-Fulton-Montgomery BOCES (HFM) is ranked as the 36th largest BOCES in the State, in terms of total general fund expenditures (\$11,747,679), for the 1997-98 school year.

The pie chart illustrates general fund expenditures by program for the 1997-98 school year.

Hamilton-Fulton-Montgomery BOCES



Background and Scope of the Audit

The audit examined management practices, records and documentation related to select areas of Hamilton-Fulton-Montgomery BOCES operation for the period July 1, 1997 through June 30, 1998. These areas included Administration, Operation and Maintenance, Cooperative Services, and Employment Preparation Education (EPE). This was a financial related audit and the objectives were to: determine if cost allocations and transfers were accurate and reasonable; determine if services comply with Department approved specifications; verify that only reasonable and necessary costs were incurred; and verify that the budgetary process provides control over the expenditures of funds.

Audit Results

Presented below is a summary of the significant audit findings developed in response to the audit's objectives.

- HFM BOCES can improve EPE procedures by adequately documenting all contact hours and ensuring all required information is contained in student folders (pages 3-6).
- Opportunities exist to improve management processes relating to purchasing policies, travel expense reimbursement rates, and allocations of transactions (pages 7-13).

HFM BOCES officials have taken steps to document contact hours and the proper enclosures for student folders. They have also fully revised and updated the Policy Manual and will modify the meal reimbursement rate.

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Introduction

Boards of Cooperative Educational Services (BOCES) are voluntary, cooperative associations of school districts that have joined together to provide educational programs or services more economically than each district could offer by itself. BOCES are organized under Section 1950 of the Education Law. Chapter 474 of the Laws of 1996 amended Section 305 of the Education Law to require the New York State Education Department (Department) to perform fiscal audits of BOCES at least once every three years.

BOCES may provide such services as special education for students with disabilities, occupational education, academic and alternative programs, summer schools, staff development, computer services, educational communications and cooperative purchasing. There are 38 BOCES in New York State and all but 13 of the 705 operating school districts in the State are members.

Each BOCES submits an annual Cooperative Services Application (CO-SER) to the Department for approval for each program and service offered to districts. After the BOCES obtains approval and determines budgeted program costs, it notifies the districts of available programs and the applicable rates.

Districts that belong to a BOCES are called component districts and are required to pay a share of the BOCES' administrative costs. Only districts that actually use the programs offered by a BOCES, called participating districts, are required to pay for the program costs. Costs charged to the districts for administration and programs are based on budgeted costs and are adjusted at year-end to reflect actual costs. Typically, a refund is issued to the districts to reconcile differences.

HFM BOCES, headquartered in Johnstown, New York, was established to be a means for the school districts of Hamilton, Fulton and Montgomery counties to cooperatively carry out studies, develop specialized facilities and offer shared educational programs and services. Shared programs allow districts to offer opportunities to students and staff that might not otherwise be economically possible.

HFM BOCES serves 14 component districts, which enroll more than 14,459 students. HFM BOCES ranked as the 36th largest in the State, in terms of total general fund expenditures, for the 1997-98 school year.

Objective, Scope and Methodology

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to selected operations of HFM BOCES for the period July 1, 1997 through June 30, 1998. This was a financial related audit and the objectives were to:

- determine if cost allocations and transfers between funds and among CO-SERs are accurate and reasonable;
- determine if CO-SERs comply with Department approved specifications;
- verify that only reasonable and necessary costs were incurred;
- verify that the budgetary process provides control over the expenditure of funds; and
- verify the accuracy and reliability of data reported to the Department for EPE aid.

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

We conducted the 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.

Comments of HFM BOCES Officials

HFM BOCES officials generally agreed with the findings and recommendations in this report. Their comments have been included where appropriate and their response is included as Appendix B to this report.

Employment Preparation Education

HFM BOCES operates an Employment Preparation Education (EPE) Program. This categorical aid program serves students 21 years of age or older who have not received a high school or equivalency diploma.

Part 168.4 of the Regulations of the Commissioner of Education (Regulations) states that EPE Program funds may be spent for personal services, employee benefits, equipment, supplies and materials, contractual services, travel expenditures, staff development and training, and other expenditures approved by the Commissioner. These expenditures are to be used only for EPE Program purposes.

HFM BOCES received a total of \$45,566 in EPE aid for the period July 1, 1997 through June 30, 1998, based on reported contact hours. The audit found that HFM BOCES needs to improve its system for identifying, documenting and accumulating certain EPE contact hours.

Education Law 3602 states that when total revenue received exceeds the entire cost of such program, State aid payable in the following year will be reduced by the amount of such excess. This means that HFM BOCES must refund the larger of revenues disallowed or expenditures disallowed, but not both. The audit report will be used by the Department to adjust future aid received by HFM BOCES.

The audit found that HFM BOCES could not document all contact hours. HFM BOCES officials claimed \$39,252 in EPE expenses and, since \$45,566 in EPE aid is greater, they owe \$6,314.

Contact Hour Documentation

School districts and BOCES generate EPE aid by reporting contact hours and student enrollment on Form SA-160, EPE State Aid Claim Form. Under Section 168.2 of the Regulations, a contact hour for EPE means 60 minutes of instruction given by a teacher in approved program component areas. The Department requires the number of reported contact hours to be clearly documented to ensure that EPE revenues paid to the districts or BOCES are appropriate. Any undocumented or overstated contact hours will be questioned upon audit and revenues will be reduced accordingly. The districts or BOCES

must maintain classroom attendance rosters of all students who attend EPE Programs.

Part 168.4 of the Regulations states that BOCES are required to maintain appropriate attendance records to support contact hours reported on form SA-160.

Pages 8 and 9 of the October 1995 memo from the then Assistant Commissioner for Workforce Preparation, Johanna Duncan-Poitier, states:

"To ensure that EPE revenues paid to the district or BOCES are appropriate, the number of reported contact hours must be clearly documented. Any undocumented or overstated contact hours will be questioned upon audit and revenues will be reduced accordingly. The district or BOCES must maintain classroom attendance rosters of all students who attend EPE programs. Documentation must clearly support reported contact hours and compliance with requirements regarding maximum class size (20) and the maximum number of class hours per week (20). All variances must be approved annually in writing by the Education Department.

The burden of proof for producing the necessary documentation to ensure accuracy and compliance with Commissioner's Regulations rests on the provider or lead agency, in the case of school district consortium. To avoid audit exceptions, agencies must have annual written approval from OWPCE [Office of Workforce Preparation and Continuing Education] of any interpretations, waivers or informal understandings about how the district or BOCES can generate or use EPE aid."

The audit found that HFM BOCES' records did not always adequately document EPE contact hours. This resulted in HFM BOCES making errors when calculating EPE contact hours.

HFM BOCES has two EPE Program activities, GED and Vocational Education.

- For the GED classes, the only evidence of attendance were daily attendance sheets which contained the following information: the date, the students' names, and the times the students signed in/out. There were many cases where the student did not sign out making it difficult to determine if the student was in attendance for the whole class. The daily attendance sheets did not indicate the teacher's name, the service being provided, the class location, the class

times/length of class, or the days of the week the class was held.

- For the Vocational Education classes there were no attendance sheets. HFM BOCES tracks the absences only. There is a Student Record that it uses when calculating EPE hours. The Student Record has beginning and ending enrollment dates, but did not indicate the days of actual attendance, the teacher's name, the service being provided, the class location, the class times/length of class, or the days of the week the class was held.

When calculating EPE contact hours, HFM BOCES takes the beginning and ending enrollment dates on the Student Record, determines the total possible number of days of class the student could have attended, and then subtracts the absences to come up with total EPE contact hours for the student. This system does not consider whether a student does not attend a whole class on any given day. It is also likely that some absences would be missed. The audit noted several instances where HFM BOCES did not adjust EPE contact hours for students that either started the program late, left early, or both.

HFM BOCES officials were not able to produce a summary sheet for reported EPE contact hours. Instead, they simply added up the contact hours on each individual daily attendance sheet and for each Student Record. When the audit tried to duplicate calculating the contact hours, the audit found the amounts shown on the attendance sheets and the amounts calculated by the audit were greater than the amount reported.

Without adequate attendance documentation, HFM BOCES has less assurance that it is properly reporting and claiming EPE contact hours. If the program grows and the documentation is not improved, there could be substantial EPE adjustments in future audits. The audit prepared a proposed attendance register format that included pertinent information and submitted it to HFM BOCES.

HFM BOCES officials do not agree that it did not always adequately document EPE contact hours, and that attendance documentation was not always complete and did not include necessary information. They are confident that other documentation is sufficient to support contact hours claimed.

HFM BOCES officials stated they will enforce use of prescribed forms in the future to ensure that the attendance documentation

will be complete and adequately support all reported and claimed EPE contact hours.

Student Folders

Section 168.3 of the Regulations requires that every student served in an EPE Program have an individual student folder that is easily accessible to the student and the teacher, and includes information concerning registration, attendance, testing and individual program needs. At a minimum, registration information must include the student's name, class attendance, date of birth or age, and diploma status. Beginning in 1995-96, each folder is also required to contain an Individual Education and Employment Preparation Plan (IEEPP).

The audit reviewed student folders for 10 students and found:

- None of the student folders reviewed contained evidence of attendance; and
- None of the student folders reviewed contained IEEPPs.

HFM BOCES is not in total compliance with the Regulations because student folders did not contain attendance information or the required IEEPPs. Without the required IEEPPs, it is difficult to determine if a student is receiving necessary services, or if the services provided are in line with the student's stated goals, etc.

HFM BOCES officials agree that student folders do not include attendance information or the required IEEPPs. They will modify procedures to require administrators to comply with requirements to ensure that student folders will include attendance information and IEEPPs in the future.

Recommendations

1. Ensure all contact hours claimed are adequately documented.
2. Ensure all student folders contain required information.

Comments of HFM BOCES Officials

HFM BOCES officials concur with these recommendations.

Opportunities to Improve Management Processes

Management is responsible for establishing effective management processes or controls. In its broadest context, management controls include the plan of the organization, methods, and procedures adopted by management to ensure that its goals are met. These processes include such areas as planning, organizing, directing and controlling program operations. They include systems for measuring, reporting and monitoring program performance. The audit reviewed several processes that it determined significant to the audit objectives and found several opportunities for improvements. These areas include allocations and transfers, inventory control, reporting to tax authorities, unnecessary and unreasonable expenses, and improving policies.

Policies and Procedures Manuals Incomplete

The Office of the State Comptroller's *Financial Management Guide (Guide)*, Volume 2, Subsection 11.0101, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. In addition, all resources should be safeguarded against waste, loss and misuse. A component of an effective internal control structure are written "Control Procedures" which are established policies and procedures. Policies and procedures define management's position and guide employees in the performance of their duties.

HFM BOCES does not have a complete written policy manual and there is no written procedures manual. In addition, the policy manual has been a work-in-process for the last three years. They plan to begin a procedure manual after the policy manual is completed. HFM BOCES does not have complete, formal written policies for the following areas: travel, personal phone calls, vehicles, overtime, cash disbursements and credit cards.

Without appropriate formal written policies and procedures, there is a much greater chance that the directives of the board and management will not be followed. There is also a greater chance of misunderstandings and improprieties.

HFM BOCES may look to their independent auditors, accounting literature, and other BOCES in establishing the needed policies and procedures.

HFM BOCES officials state they have adopted a complete formal, written policy manual at their 1999 reorganization meeting. They state it was a three-year task undertaken by the cooperative board and will continue to be reviewed for completeness. It now should contain policies for travel, personal phone calls, vehicles, overtime, cash disbursements and credit cards.

HFM BOCES officials do not entirely agree that there are no written procedures. They state that while standard procedures are in place, many still require formal approval by the board. A procedure manual is in the process of being completed and will be evaluated annually and presented to the board for re-adoption at the reorganization meeting.

Policies for Travel and Expense Reimbursement Needs Improvement

The General Municipal Law primarily governs travel and expense reimbursements. Local board policies and IRS rules are also applicable. General Municipal Law, Section 77-b, generally authorizes reimbursement of actual and necessary expenses incurred in attending a convention or conference conducted for the benefit of the municipality.

The *Guide* notes that “as a general rule, a particular expense may be considered ‘actual and necessary’ if:

- an expenditure was actually made;
- the item was necessarily incurred for an authorized purpose; and
- the expense was in an amount no greater than necessary.”

General Municipal Law, Section 77-c, allows municipalities the option to pay meal expenses based on a per diem meal allowance schedule, “... but in no event shall such allowance exceed the standard meal allowance for business-related travel adopted or prescribed for federal income tax purposes.”

The *Guide* notes that the local government board “should promulgate specific rules and regulations concerning the reimbursement of expenses.” Further, it notes that “the rules and regulations should set forth the type of expenses which will be reimbursed, the procedures and documentation necessary to support the reimbursement, and any reasonable dollar or time limits which the board may wish to set.”

The *Guide* also provides some examples of rules and regulations the board could adopt, such as establishing reasonable maximum reimbursement rates to cover actual lodging and meal expenses. In addition, the board should adopt a procedure for reimbursement of expenses in excess of the ceiling amounts when properly justified.

HFM BOCES has a written policy establishing maximum reimbursement amounts for meals that are, in many instance, currently more than twice the established federal rates.

According to HFM BOCES' policy 4016.1, "Actual meal expenses (including gratuities) may be claimed to a maximum of \$60/day. Maximum reimbursement for partial day expenses shall be based upon maximum meal allowances of \$10 for breakfast, \$15 for lunch and \$35 for dinner." The current federal meal allowance for New York City is \$42, with the lowest New York State rate being \$30. The highest federal meal allowance in the United States is \$42.

Although HFM BOCES did not establish a per diem system for its travel reimbursements, the audit believes it is in the best interest of the taxpayers that the maximum reimbursement amounts for meals do not exceed maximum federal per diems. Having meal reimbursements above federal maximums are not the most efficient use of taxpayer dollars. HFM BOCES could be guided by the established federal per diem rates when establishing maximum reimbursement amounts.

HFM BOCES officials agree that their meal reimbursement rates for outside of New York City are excessive, based on IRS rates. They also concur that their meal allowances are more than IRS established rates and might not be the most efficient use of taxpayer dollars. They state they will modify the policy during the next round of policy reviews.

Purchase Orders

The *Guide*, Volume 2, Subsection 11.0101, states that effective internal control systems are designed to ensure management that all resources entrusted to their care are used in accordance with all laws, regulations, policies and sound business practices, where applicable. In addition, all resources should be safeguarded against waste, loss and misuse.

A purchase order is a formal notice that authorizes a vendor to furnish supplies or services as described on the form. One benefit of a purchase order system is that it helps ensure that

budgetary authority exists before commitments are made. The *Guide* states that the purpose of the system is to effectively control expenditures and realize the maximum savings of taxpayers' dollars. The *Guide* also notes that control over a purchasing system involves compliance with required purchasing procedures and attention to necessary paperwork.

According to HFM BOCES' purchasing procedures, adopted May 7, 1996, no invoice will be paid that has not received proper approval. Proper approval includes an approved purchase requisition and an approved purchase order (which is initiated by an approved purchase requisition).

The audit reviewed 53 transactions. In some instances, a transaction may have had more than one purchase order. The audit found that of the 57 items tested that required a purchase order, 26 (45.61 percent) items did not have one.

During the audit year, HFM BOCES did not comply with its own policy regarding the use of purchase orders. Without a properly executed purchase order, HFM BOCES had less assurance that expenditures were properly authorized and that funds were encumbered in a timely fashion.

HFM BOCES officials agree that they did not always use purchase orders in a manner consistent with their own procedures and that procedures will be revised to exclude those items where they feel no purchase order is required.

Purchases Requiring Quotations

HFM BOCES' Personal Property Accountability Policy, adopted December 4, 1996, has guidelines for purchasing supplies and equipment, and for purchasing services, labor or construction public works contracts that delineate procedures by dollar limits.

The audit found two out of six instances where HFM BOCES did not document that sole source vendors were used.

- \$14,114 was paid for CD ROMs with Magazine Article Summaries for component and non-component districts (a purchased service that falls under services).
- \$6,381 was paid for videos purchased from Disney (falls under supplies).

HFM BOCES needs to ensure that when there is a deviation from policy the reason for the deviation is noted in the supporting

documentation. The policy and procedure manuals should require that this information is noted on supporting documentation.

HFM BOCES officials stated that procedures will be modified to indicate those instances where the bidding procedures may be modified.

Transactions Not Correctly Classified

According to the Uniform System of Accounts for Boards of Cooperative Educational Services, page 1, "...Financial statements must be presented in conformity with generally accepted accounting principles (GAAP)..." According to GAAP, all transactions must be valid, properly classified, properly measured, recorded in the proper accounting period, and be presented properly in the financial statements. An appropriate internal control structure ensures that GAAP is being followed.

The proper recording of transactions also allows the Department to do meaningful comparative analysis with BOCES throughout the State.

During the sample testing of other than personal service transactions, the audit found that six of 63 (9.52 percent) items were not correctly classified. Transactions included in the sample tested were not properly recorded in accordance with GAAP. For example, life insurance for the District Superintendent and catering services were charged to supplies. If enough transactions are not properly recorded, this can result in the financial statements not being in conformity with GAAP.

Without proper recording of transactions, the Department loses its ability to do a comparable analysis between BOCES.

HFM BOCES officials agree that they did not properly record some transactions and consequently are not in conformance with GAAP. However, they believe reimbursement to the DS for life insurance as part of his contract should be classified contractual even though it is a fringe benefit. HFM BOCES officials state they will more closely review the coding between contractual and supplies categories.

Lack of Authorization for Payment

The Guide (8.1020) states that a claim for payment must include sufficient detail to permit a satisfactory audit by a person who is entirely unfamiliar with the transaction. "Claims submitted by

an officer or employee for reimbursement of expenses should indicate the reason for the travel or expense and the authorization for incurring it.”

Good business practice suggests that all payments be reviewed and approved by the appropriate individuals and that evidence of this approval be noted on supporting documentation.

During the testing of 55 transactions totaling \$302,925, the audit noted that five of 60 (8.33 percent) items did not have any indication of approval for payment. The total of these five transactions was \$81,372, which was 26.86 percent of the total.

Without proper approval of payments, HFM BOCES and the audit have no assurance that:

- the expenditure was actually made;
- the item was necessarily incurred for an authorized purpose;
- the expense was in an amount no greater than necessary; or
- there were no duplicate payments made.

HFM BOCES officials agree that all charges must be authorized as evidenced by a valid signature. HFM BOCES officials state they will continue the current policy of having all invoices reviewed and initialed by the Assistant Superintendent and claim their review of the invoices selected by the auditors indicates the Assistant Superintendent’s initials were affixed thereto.

Allocation of Fringe Benefits

Education Law requires that the net cost of operating a BOCES service be allocated among participating districts. Expenditures related to more than one service should be prorated accordingly. In order to ensure that component districts pay only for services received, allocations should be reasonable, accurate, and adequately supported.

Fringe benefits are not always allocated among CO-SERs on an equitable basis. There are two reasons for this.

- When HFM BOCES creates its budget and is allocating budgeted fringe benefits, HFM BOCES does not always include all of the salaries that should have fringe benefits allocated to them. Consequently, budgeted fringe benefits are not appropriately allocated to the budgeted salaries. These calculations are carried through to the final expenditure reports.

- There are times when a CO-SER runs out of budgeted fringe benefits, such as in the case of CO-SERs with grant monies. If the salaries are also charged to other CO-SERs, HFM BOCES will charge the balance of the actual fringe benefits to the other CO-SERs if there is available budgeted fringe benefits.

Because of these two actions, fringe benefit rates fluctuate from 3.5 percent to 43.58 percent in the General Fund and from 0 percent to 22.37 percent in the Special Aid Fund. Any CO-SER with reported salaries should have fringe benefits close to seven percent of salaries because of mandated Social Security and Medicare taxes.

Fringe benefit expenditures related to more than one service are not prorated accordingly. These prorations are not reasonable or accurate.

HFM BOCES officials believe they are allocating fringe benefits to CO-SERs as accurately as possible. They state they will review those items that seem out of line and obtain explanations for the variance.

Recommendations

3. Ensure a formal policy manual is maintained up-to-date.
4. Ensure a procedures manual is completed and maintained up-to-date.
5. Review meal reimbursement rates to bring more in line with federal and State rates.
6. Ensure purchase orders are used, except in instances where exempted.
7. Improve policies so that when there are deviations from the purchasing procedures, it is noted on supporting documentation.
8. Ensure all transactions are properly classified.
9. Ensure all payments are properly authorized.
10. Ensure all fringe benefits are reasonably allocated and methodology is supported.

Comments of HFM BOCES Officials

HFM BOCES officials concur with recommendations 3 through 9. For recommendation number 10, they state that only two instances are cited and there are valid reasons for them.

Auditor's Note

For recommendation number 10, the audit was referring to a procedure and only cited those instances as examples. The audit accepts HFM BOCES response that they will review those items that seem out of line.

Contributors to the Report
Hamilton-Fulton-Montgomery BOCES

- Cal Spring, Audit Manager
- John Cushin, CPA Auditor-in-Charge
- Louise Costello, Senior Auditor

**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 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.