
Audit Report

Oswego County
Board of Cooperative Educational Services

For the Period

July 1, 1996 through June 30, 1997

BOC-1098-3

January 26, 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 26, 2000

Mr. Weston T. Hyde
District Superintendent of Schools
Oswego BOCES
179 County Route 64
Mexico, New York 13114

Dear Mr. Hyde:

The following is our final audit report (BOC-1098-3) on the Board of Cooperative Educational Services Oswego County for the period July 1, 1996 through June 30, 1997. 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

Enclosure

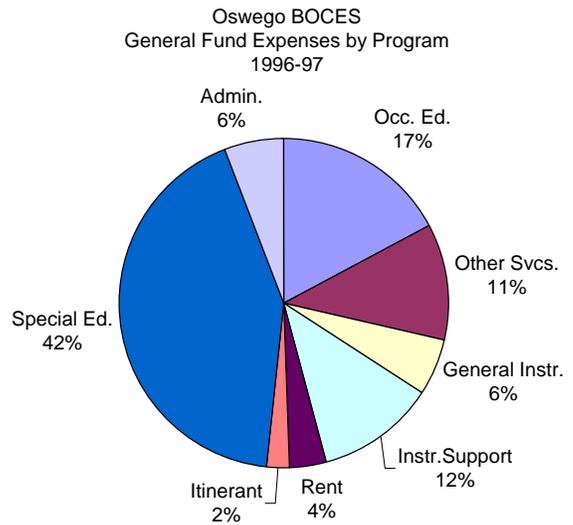
cc: Commissioner Mills, R. Cate, J. Kadamus, T. Sheldon, C. Foster (DOB),
H. Hoffman (OSC)
bcc: G. Illenberg, S. Spear, B. Stambler

Executive Summary

Oswego BOCES ranked 22nd of the 38 BOCES in the State, in terms of total general fund expenditures, for the 1996-97 school year (\$27 million). The pie chart illustrates general fund expenditures by program for the 1996-97 school year.

Background and Scope of the Audit

The audit examined financial management practices, records and documentation related to selected areas of Oswego BOCES operations for the period July 1, 1996 through June 30, 1997. These areas included Administration, Occupational and Continuing Education, Special Education, Alternative Education, Operations and Maintenance (O&M), the Employment Preparation Education (EPE) Program, and other select CO-SERs. This was a financial related audit and the objectives were to: determine if cost allocations and transfers are accurate and reasonable; determine if services comply with Department approved specifications and provide measurable cost savings to school districts; verify that only reasonable and necessary costs are incurred; verify that the budgetary process provides control over the expenditure of funds; and verify the accuracy and reliability of data reported for EPE Program aid.



Audit Results

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

- EPE contact hours were overstated resulting in an overpayment of \$30,039 in State funds.
- Facility rental costs were not accounted for in the proper manner.
- Documentation should be maintained for expenditure transfers and credit card purchases.
- Improvement opportunities exist in accounting for the printing operation, developing and adopting needed policies, separating incompatible duties, billing for services, controlling Oswego BOCES-owned vehicles, and purchasing practices.
- Refunds were not accurately calculated.
- An unapproved service was provided.

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Introduction

Background

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 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.

Oswego BOCES was established to be a means for the school districts of Oswego County to cooperatively carry out studies, develop specialized facilities, and to offer shared educational programs and services. Shared programs allow districts to offer opportunities to students and staff that might not otherwise be economically possible.

Oswego BOCES, headquartered in Mexico, New York, serves nine component districts. Oswego BOCES ranked as the 22nd

largest in the State, in terms of total general fund expenditures, for the 1996-97 school year.

Objectives, 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 Oswego BOCES for the period July 1, 1996 through June 30, 1997. 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 and provide measurable cost savings to school districts;
- 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 Employment Preparation Education aid.

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

There is no State or BOCES process to assess whether CO-SERs result in measurable cost savings to school districts. As a result, the audit was not able to complete this portion of the scope.

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 Oswego BOCES Officials

Oswego BOCES officials generally agreed with the findings and recommendations in this report. However, they do not believe that GRASP contact hours were overstated. They believe the contact hours were reported consistent with guidance provided at that time. Their comments have been included where appropriate and the response is included as Appendix B to this report.

Employment Education Preparation Program

Oswego BOCES operates an Employment Preparation Education Program. This categorical aid program targets students 21 years of age and older and provides instruction that leads to a high school or equivalency diploma. Oswego BOCES received \$195,771 in EPE Program aid for the period July 1, 1996 through June 30, 1997, based on 60,545 reported contact hours.

The Department provides State aid for the EPE Program based on the number of contact hours that are provided to eligible students. The aid must be spent for EPE Program related services and allowable expenses. Section 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.

Education Law 3602 requires that State aid payable in the following year be reduced by the amount of any excess revenue. Oswego BOCES' system for accumulating, reporting and documenting its EPE Program contact hours needs significant improvement. The audit identified instances where Oswego BOCES incorrectly reported Giving Rural Adults a Study Program (GRASP) contact hours. In addition, a small sample of contact hours in traditional programs identified some unsupported hours. In total, Oswego BOCES received \$30,039 in EPE funds based on ineligible contact hours. The audit report will be used by the Department to adjust future aid received by Oswego BOCES.

GRASP Program Contact Hours Overstated

GRASP was developed to serve students of at least 21 years of age. Instruction is provided through individualized packets of books prepared by a certified teacher according to the General Equivalency Diploma (GED) curriculum. Each packet contains 12 hours of student work. The packets are sent to the students, completed, and returned to the teacher within a two-week period.

Education Law and Department guidelines define contact hours eligible for EPE aid. For the GRASP program, BOCES are limited to claiming 12 contact hours per hour the teacher worked. This is further limited to one teacher hour per actively enrolled

student. A student is considered actively enrolled if the student completes and turns in a homework packet once in a two-week period. Therefore, for every homework packet turned in, up to 12 contact hours may be claimed. This should be compared to the number of hours the teacher worked. BOCES may claim the lesser of: 12 contact hours times the number of homework packets received, or 12 contact hours times the number of teacher hours worked. The most likely scenario is that the number of actively enrolled students will limit the number of contact hours that may be claimed.

Oswego BOCES system for tracking GRASP contact hours recorded multiple contacts with the student. The system includes codes for tracking calls from the students, by the teacher, visits by the teacher, outgoing assignments, tests, practice tests, returned practice tests, and an assortment of correspondence sent to the student. Department guidelines only allow a returned packet as evidence of active enrollment and, therefore, eligible contact hours.

As a result of the tracking of ineligible activities, Oswego BOCES overreported eligible contact hours. Oswego BOCES reported 10,836 GRASP contact hours for the period from July 1, 1996 to June 30,1997. The audit was only able to verify that 1,536 of the reported hours were eligible. The remaining 9,300 hours were not eligible EPE contact hours. This resulted in Oswego BOCES receiving \$30,039 in excess EPE funding.

Other Minor Errors Found in Traditional EPE Classes

Part 168.2 of the Regulations defines a contact hour as 60 minutes of instruction given by a teacher in an approved program. The audit reviewed a sample of attendance at traditional EPE classes. Errors were found at two sites. At the Mexico site, 3,080 contact hours were reported and 52.4 were undocumented. Similarly, at the Liverpool - Migrant site, 470.25 contact hours were claimed, of which 27.75 were undocumented. These errors resulted in \$259 in excess funding.

Recommendation

1. Institute controls to ensure the correct documentation and reporting of EPE contact hours.

Comments of Oswego BOCES' Officials

Oswego BOCES officials disagreed with this recommendation. They stated that they were provided written guidance from the Department and Warren-Washington BOCES (the original designers of the GRASP program) that supports the method Oswego BOCES recorded and calculated the GRASP Program contact hours.

Auditor's Note

The audit provided this documentation to the Department's program office for their review and comment. They stated that the student is considered active once the teacher corrects the homework packet returned by the student.

Administrative Expenditures

Education Law, Section 1950 (5)(g), states that rental of facilities shall be deemed an administrative expense. According to "General Requirements of the Administrative Budget," rental agreements for securing facilities to house administration and programs shall be included in the Administrative Budget. Department policy and Office of the State Comptroller (OSC) guidelines require all rent to be reported as a payment from CO-SER 002 (Rental of Facilities), not in the program accounts.

Oswego BOCES and its component districts agreed to charge the fee for Oswego BOCES to use district space in the following method:

Oswego BOCES would pay \$8,500 per classroom for all services. This fee would be divided between accounts as follows;

- \$5,000 would be considered rent and be charged to CO-SER 002 Capital.
- \$1,500 would be considered ancillary services to be charged to the program using the space.
- \$2,000 would be considered O&M and be charged to Administration.

The amount considered O&M should be charged to the program, not Administration. As a result, Administration was overstated by \$99,232 (approximately 66 classrooms). Oswego BOCES does not have documentation to support this agreement or the calculation of the amount charged to Administration.

Recommendation

2. Report all rent costs in CO-SER 002.

Comments of Oswego BOCES' Officials

Oswego BOCES officials agreed with this recommendation.

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 planning, organizing, directing and controlling program operations. They include systems for measuring, reporting and monitoring program performance. The audit reviewed several processes considered relevant to the audit objectives and found several opportunities for improvements. These areas include the documentation of credit card usage, transfers, and the timing of the recording of expenditures,

Documentation of Credit Card Purchases Can Be Improved

OSC's *Financial Management Guide for Local Governments* (Guide), Subsection 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."

The audit reviewed credit card activity from July 1996 through July 1997 totaling \$10,397 in charges. Oswego BOCES procedures do not require that the original charge slips be submitted to the business office prior to payment of the credit card bill.

When the credit card bill is received at Oswego BOCES, it is forwarded to the individual that uses the card. That person is responsible for reviewing the bill and ensuring that all of the charges are correct and are business related. The bill is then forwarded to the business office (without the receipts attached) for payment. In the business office, the Executive Director for Business also reviews the bills; however no receipts are attached.

Oswego BOCES' internal auditor (Deputy District Superintendent) reviews all payments for proper documentation. When a credit card bill is received, the internal auditor looks to see if the cardholder reviewed the bill. The internal auditor does not look for the credit card receipts. As a result, none of these

payments were supported by credit card receipts or other supporting documentation.

The audit requested any credit card receipts that may have been in the possession of the cardholders. Some original receipts were provided. In total, the audit found that \$4,846 of \$10,397 in charges was supported by sufficient documentation.

Oswego BOCES can strengthen control over the use of credit cards by requiring the submission of original receipts for support of the credit card invoices. This will allow business office staff and the internal auditor to review the charges for appropriateness.

Documentation of Expenditure Transfers Can Be Improved

The Guide, Volume 1, Subsection 1.1040, states that in order to provide "full cost" information, methods must be devised to allocate indirect costs to the benefited areas. Sound business practices dictate that any method that produces an equitable cost distribution and is adequately documented is acceptable. The documentation would be of a nature that a prudent person, familiar with functions of the organization, could determine that the methods and the underlying basis for allocation are reasonable and consistent. Oswego BOCES did not maintain sufficient documentation to support the transfers of expenditures among CO-SERS, and did not account for the costs of printing in a manner that allows a determination of the equity of the allocations.

Oswego BOCES did not have adequate procedures to document transfers of budgeted appropriations or expenditures. When a transfer was needed, the Business Manager would write out the journal entry, or make notations on financial reports, and the treasurer would be expected to post the entry. The initiating documentation would then be discarded. As a result, there is very little documentation related to the expenditure transfers.

The audit requested documentation to support 14 transactions with a value of \$802,989. However, Oswego BOCES did not provide documentation supporting nine of these transactions, totaling \$161,058, or 20 percent.

Oswego BOCES has since improved this procedure and requires adequate documentation of each journal entry and supporting documentation.

Printing Costs Understated

Oswego BOCES business office staff recorded expenses related to the Printing CO-SER in other CO-SERs. Oswego BOCES officials stated that this was done to reduce the need to allocate the printing costs at the end of the year to the CO-SERs that received the services.

At the beginning of the year, amounts are budgeted for printing services in each CO-SER by assessing a fee based upon the budgeted salary amount. The rationale is that a service using more staff is likely to utilize more printing services.

When a printing expense is incurred, the invoice received would not be posted to the printing CO-SER, but to the printing budget line for another CO-SER (assuming that there were enough funds to pay the invoice). This process understates the true cost of the printing operation because total costs are never accumulated in one CO-SER.

Improvement Needed in Billing for Services

A proper internal control system would provide for a method of verification that all revenue earned is received. This process is often reflected in an accounts receivable function, whereby there is central responsibility for billing and monitoring of the subsequent payments.

Oswego BOCES does not have a centralized process for billing an entity for services rendered. Some individual departments prepare their own invoice for services provided. As a result of this, there are times when a payment is received in the business office and there is no documentation of the reason for the payment. The more serious concern with this process is that if a payment is not received in the business office, it will not be missed.

Suggested Additional Policies

The Guide, Volume 2, Subsection 11.1010, 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. Also, all resources should be safeguarded against waste, loss and misuse. A component of an effective

internal control structure is "control procedures," that is established policies and procedures. Policies and procedures define management's position and guide employees in the performance of their duties.

Oswego BOCES does not have policies or procedures covering the following:

- Prohibition of BOCES involvement in non-employee travel.
- Documentation of employees' meal expenses.
- Personal long distance phone calls.
- Use of cellular phones.
- Use of BOCES vehicles.
- Overtime approval.
- Documentation of BOCES credit card bills.

These represent policies and procedures that exist at other BOCES. The list does not represent all policies and procedures that may be needed.

Separation of Duties

Good internal controls include separating incompatible duties among employees to reduce the likelihood that unauthorized transactions could be created and remain undiscovered.

The treasurer is responsible for recording transactions in the financial records. In addition, the treasurer also performs bank reconciliations. These two duties make it possible for one individual to create an unauthorized transaction and hide this fact.

Control Over Oswego BOCES-Owned Vehicles Can Be Improved

Proper internal controls include ensuring that valuable assets are protected from unauthorized use or abuse.

Oswego BOCES does not secure the keys to Oswego BOCES-owned cars at all times. If an employee returns a car after normal working hours, they are dropped in a box that is not secured from other employees. Additionally, the employees are instructed to keep the gasoline credit card and Thruway EZPass until they can return them during normal business hours.

Oswego BOCES requires employees to sign a certification that states they have a valid driver's license after they return with the car.

Improvement Needed in Purchasing Practices

General Municipal Law (GML), Section 100 (a), states that the competitive bidding statutes of New York State are to be construed “to assure the prudent and economical use of public moneys for the benefit of all the inhabitants of the state and to facilitate the acquisition of facilities and commodities of maximum quality at the lowest possible cost.” In addition, GML, Section 104 (b), requires that goods and services that are not required by law to be bid “must be procured in a manner so as to assure the prudent and economical use of public moneys in the best interests of the taxpayers ... to facilitate the acquisition of goods and services of maximum quality at the lowest possible cost under the circumstances, and to guard against favoritism, improvidence, extravagance, fraud and corruption.”

Additionally, Oswego BOCES' own policies state that purchases over \$3,000 require at least three written quotes and purchases over \$1,000 require at least three verbal quotes.

Oswego BOCES did not retain documentation to support that purchases complied with GML, or their own purchasing policies. The audit selected 14 purchases to confirm that Oswego BOCES is complying with GML and their own purchasing policies. The audit found that two of five purchases over \$10,000 were bid. However, Oswego BOCES did not select the lowest bidder for one of these bids. Oswego BOCES did not retain any documentation explaining the reason for this and, as a result, Oswego BOCES may have overpaid for one purchase by \$1,523.

The audit reviewed nine other purchases to determine if Oswego BOCES was complying with their own purchasing procedures. Oswego BOCES was not able to provide documentation that they complied for seven of these purchases.

Additionally, Oswego BOCES did not document the reason the lowest bidder was not selected for a bus purchase. As a result, the purchase may have been \$1,500 higher than necessary.

Recommendations

3. Review the original source documentation supporting credit card purchases and maintain supporting documentation.
4. Maintain documentation to support the transfer of expenditures among CO-SERs.
5. Account for printing costs in the printing CO-SER in order to accurately reflect the true costs of the printing operation.
6. Review the list of suggested policies and consider adopting.
7. Reassign some of the treasurer's duties to another individual.
8. Initiate control over the keys to Oswego BOCES-owned vehicles, and require the return of vehicles after their official use.
9. Maintain documentation to support compliance with both external and internal purchasing requirements. Issue the Oswego BOCES regulations to all staff involved in purchasing goods or services.

Comments of Oswego BOCES' Officials

Oswego BOCES officials agreed with these recommendations.

Cooperative Services

BOCES must obtain the prior approval of the Commissioner of Education before providing any service. The Cooperative Service Application is the document used to request this approval. BOCES Administrative Handbook #2, Criteria-Guidelines for Approval of BOCES Services, delineates the minimum standards for approvable service programs. A new service proposal must be submitted for any service which is new to a given BOCES.

School districts that are components of BOCES are eligible for BOCES operating aid. BOCES facilities and rent aid provide reimbursement for approved expenditures for facility construction, purchase, or lease. BOCES operating aid provides reimbursement for base year service costs and administrative expenditures, with the following limitations:

- administrative expenditures may not exceed 10 percent of total expenditures;
- service expenditures are aidable only to the extent they are approved for aid;
- an employee's salary is aided up to \$30,000;
- expenditures for education of pupils with disabilities are not eligible for BOCES aid. Public excess cost aid is provided to the district of residence for a student with disabilities; and
- expenditures for transportation are not eligible for BOCES aid. Transportation aid is provided to the district responsible for providing such services.

The audit found that Oswego BOCES did not accurately provide a refund to districts and offered a cooperative purchasing service without approval.

Refunds Not Provided to Participating School Districts

According to Education Law, Section 1950 (4)(f), the "apportionment of surpluses shall be on the basis of participation to those components and to those school districts outside the BOCES contracting for such programs."

Oswego BOCES did not calculate refunds for each CO-SER based on participation of all districts, just the component districts. Refunds were determined for each service based on the percentage of participation by component districts, without regard to participation by non-component districts.

For one CO-SER (415 Exploratory Enrichment), the component districts received a refund of \$32,436, which is the total amount refunded for this CO-SER. These component districts' actual percentage of participation in this CO-SER was only 34 percent and they should have received a refund of only \$11,027. The remaining refund amount of \$21,409 should have been paid to the non-component districts.

Unapproved Service

According to Education Law, Section 1950 (4)(d), the Commissioner of Education must approve each service in order for the service to be eligible for BOCES aid. This approval process includes creating a separate CO-SER for each service and separately accounting for the costs and revenues.

The audit determined that Oswego BOCES is providing a cooperative purchasing service without approval by the Commissioner. Oswego BOCES provided this service to component and non-component districts. However, this service was not accounted for in a separate CO-SER and was not approved by the Department.

Recommendations

10. Provide CO-SER refunds to school districts based on the percentage of participation of all districts.
11. Request approval from the Department to provide a cooperative purchasing service.

Comments of Oswego BOCES' Officials

Oswego BOCES officials agreed with these recommendations.

Contributors to the Report
Oswego BOCES

- James Conway, Audit Manager
- Daniel McCarthy, Auditor-in-Charge
- Ronald Talarico, 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, 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.