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# Audit Report

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Steuben-Allegany  
Board of Cooperative Educational Services

For the Period

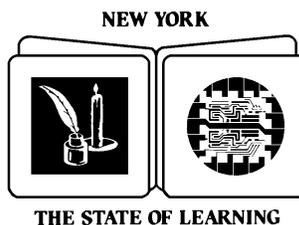
July 1, 1995 through June 30, 1996

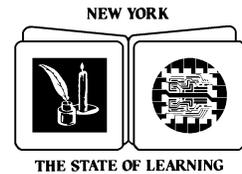
BOC-1097-7

January 8, 1999

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**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

DIRECTOR, OFFICE OF AUDIT SERVICES  
Room 524 EB  
Telephone: (518) 473-4516  
Fax: (518) 473-0259  
e-mail: dtworek@mail.nysed.gov

January 8, 1999

Mr. Rene L. Bouchard  
District Superintendent of Schools  
Steuben-Allegany BOCES  
6666 Babcock Hollow Road  
Bath, New York 14810

Dear Mr. Bouchard:

The following is our final audit report (BOC-1097-7) on the Steuben-Allegany Board of Cooperative Educational Services for the period July 1, 1995 through June 30, 1996. 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)  
R. Lindholm (OSC)  
H. Hoffman (OSC)

bcc: G. Illenberg  
R. Kesper  
S. Spear

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# Executive Summary

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Steuben-Allegany BOCES ranked as the 28th largest BOCES in the State, in terms of total general fund expenditures, for the 1995-96 school year (\$22,098,289).

The pie chart illustrates general fund expenditures by program area for the 1995-96 school year.

## Background and Scope of the Audit

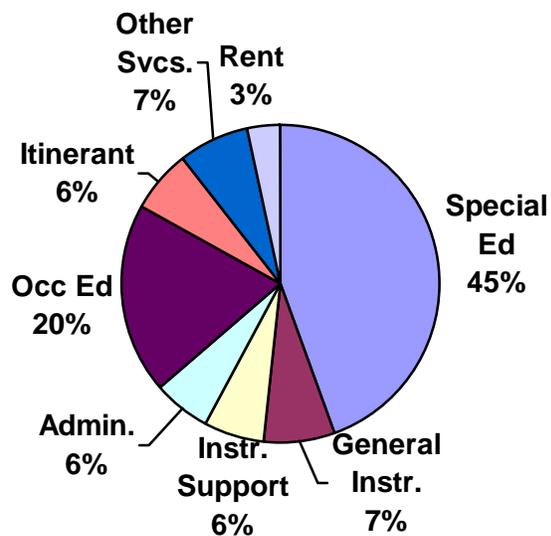
The audit examined management practices, records and documentation related to selected areas of Steuben-Allegany BOCES operations for the period July 1, 1995 through June 30, 1996. These areas included Administration, Operations and Maintenance (O&M), Employment Preparation Education, Instructional Support, Other Services and Occupational Education. 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 expenditure of funds.

## Audit Results

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

- Personal expenses of staff and Board members were paid by Steuben-Allegany BOCES.
- Ineligible expenses were claimed for BOCES aid in one instance.
- An uncertified teacher was used on a part-time basis.
- An apparent conflict of interest was not disclosed.
- Documentation of credit card use and allocations of Operations and Maintenance costs should be improved.
- Controls over Steuben-Allegany BOCES vehicles can be improved.
- The internal audit function should be streamlined.
- Inventory controls can be improved.

**Steuben-Allegany BOCES**



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# Introduction

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## Background

Boards of Cooperative Educational Services (BOCES) are voluntary, cooperative associations of school districts that have joined to provide educational programs or services more economically than each could offer by itself and are authorized by Section 1950 of the Education Law. BOCES may provide such services as special education for students with disabilities, occupational education, academic and alternative programs, summer school, staff development, computer services, educational communications and cooperative purchasing. Today there are 38 BOCES in New York State and all but thirteen of the 705 school districts in the State are members.

Each BOCES submits an annual Cooperative Services Application (CO-SER) to the State Education Department (Department) for approval of 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 collectively pay the BOCES' administrative costs. Districts that actually use the programs offered by a BOCES, called participating districts, are required to pay for the costs of those programs. Costs charged to the districts are based on budgeted costs and are adjusted at the year-end to reflect actual costs. Typically, a refund is issued to the districts to reconcile differences.

Steuben-Allegany BOCES is headquartered in Bath, New York. Steuben-Allegany BOCES serves 15 component districts, which enroll more than 18,000 students. During the 1995-96 school year, Steuben-Allegany BOCES was ranked 28<sup>th</sup> of the 38 BOCES in the State with \$22,098,289 in general fund expenditures.

## Objectives, Scope and Methodology

Pursuant to Sections 305 and 1950 of the Education Law, we audited management practices, records and documentation related to select operations of the Steuben-Allegany BOCES for the period July 1, 1995 through June 30, 1996. 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 services (CO-SERs) comply with Department approved specifications and provide measurable cost savings to school districts;
- verify that only reasonable and necessary costs were incurred; and
- verify that the budgetary process provides control over the expenditure of funds.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed Department and Steuben-Allegany BOCES management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis; and reviewed the Steuben-Allegany 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 Steuben-Allegany BOCES Officials**

Steuben-Allegany BOCES officials generally agreed with the findings and recommendations in this report. Their response is included as Appendix B.

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# Administrative Expenditures

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Each component district is responsible for a proportionate share of the costs included in the Administrative Budget, irrespective of its participation in the elective services that it may request. The Administrative Budget includes expenditures related to the District Superintendent's office, general costs of administration, expenditures of the Board, needs and assessment planning, central support for operations, and other activities as approved by the Commissioner of Education. Appropriations may also be included for the rental of facilities, payments to the Dormitory Authority for debt service, and transfers to the capital fund for construction purposes.

## **Certain Travel Expenses Questioned**

The Office of the State Comptroller's *Financial Management Guide for Local Governments* (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. Also, the board should adopt a procedure for reimbursement of expenses in excess of the ceiling amounts when properly justified.

The Guide states that any additional cost incurred for lodging when an official is accompanied by a spouse is not an actual and necessary expenditure and the local government may not pay for it. The actual and necessary cost is the usual cost for a single occupancy room. Likewise, meal expenses for a spouse are not an actual and necessary expenditure.

General Municipal Law Section 77 (b) authorizes BOCES to pay for all actual and necessary expenditures incurred by an officer or employee attending a conference. The Guide notes that as a general rule, a particular expense may be considered "actual and necessary" if (1) an expenditure was actually made; (2) the item

was necessarily incurred for an authorized purpose; and (3) the expense was in an amount no greater than necessary.

In 1995, four BOCES Board members and two BOCES employees attended the National Rural Educators Association conference in Salt Lake City, Utah. These individuals incurred personal expenses and were reimbursed with public funds. The personal expenses incurred included a post convention tour of a national park, and meals and lodging incurred en route to the conference. The audit calculated the total amount of personal expenses charged to public funds was \$4,315. Steuben-Allegany BOCES was reimbursed \$2,094 leaving an outstanding balance of \$2,221.

The most significant use of public funds occurred when a Board member and spouse took an inordinate amount of time in travel status in reaching the conference. In this case a Board member traveled in a BOCES vehicle and did not drive directly to the conference. As a result the travel included days when the Board Member was not involved in the business of Steuben-Allegany BOCES.

The audit estimated that \$1,326 in public funds was related to personal expenses of this Board member for lodging (\$911), meals (\$522), gas (\$196) and other related expenses (\$295). The audit offset the cost of airfare (\$423) and reimbursed spousal expenses (\$295) when calculating the cost of personal expenses incurred by the Board member and his spouse.

The audit also noted that another Board member also drove to the conference. This Board member incurred a total of \$417 in travel expenses and reimbursed Steuben-Allegany BOCES for approximately half of the food charged en route. This amount, before reimbursement, is \$6 less than the \$423 airfare cost for each of the other attendees.

## **Recommendations**

1. Cease the practice of reimbursing personal expenses.
2. Obtain \$2,221 in restitution from Board members and Steuben-Allegany BOCES staff for personal expenses that were paid with public funds.

## **Comments of Steuben-Allegany BOCES Officials**

Steuben-Allegany BOCES officials agree with recommendation number 1 and have amended travel policy to strengthen the prohibition against reimbursement of personal expenses. In response to recommendation number 2, Steuben-Allegany BOCES obtained reimbursement totaling \$853.

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# Cooperative Services

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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.

## **Ineligible Expenses Were Reported as Aidable**

According to the standards of approval for itinerant driver education programs, Guideline 5810, expenses eligible for aid include supervision, teacher salary, fringe benefits, teacher travel, staff development and supplies. Consultant expenses are excluded from this list.

Steuben-Allegany BOCES provides driver education to three school districts. A certified teacher is employed to provide these services. Steuben-Allegany BOCES officials stated that the districts operate on a rotating schedule, meaning that class times change daily. Because of this scheduling system, it is impossible for the teacher to make every class. Steuben-Allegany BOCES hired a consultant as a supplement to teach some of the students receiving driver education itinerant services due to the

scheduling difficulties. Officials stated that, due to the school schedules followed by the participating districts, there was a need for additional staff to teach the course. They also indicated that it was more cost effective to hire a consultant to fill this limited demand rather than hire a part-time teacher.

The use of a consultant is not consistent with the criteria guidelines and the costs of the consultant should not be aidable. In addition, the use of a consultant does not provide assurance that students are being taught by a certified teacher.

## **Uncertified Teacher**

The Regulations of the Commissioner of Education, Section 80.18, define the conditions where an uncertified individual may teach. These conditions include:

- No certified teacher is available.
- An application for a temporary certificate was filed.
- Evidence that the individual meets the minimum education requirements.
- The district assures that the individual will receive professional support from a certified teacher and that certified teacher will have a reduced workload by at least 20% per uncertified teacher.
- And other requirements.

Steuben-Allegany BOCES contracted with a driving school to provide instruction to students that could not be met by the current Steuben-Allegany BOCES teacher due to increased demand and scheduling concerns. According to Steuben-Allegany BOCES, the instructor “may be certified as an ‘Over the Road’ instructor.” This designation is not a Department certificate area.

## **Disclosure of Apparent Conflict of Interest was Not Made**

According to General Municipal Law, Section 803, “Any municipal officer or employee who has, will have, or later acquires an interest in any actual or proposed contract with the municipality of which they are an officer or employee, shall publicly disclose the nature and extent of such interest in writing to the governing body thereof as soon as they have knowledge of such actual or prospective interest.”

The audit determined that the driver education teacher owns the driving school that contracted with Steuben-Allegany BOCES to assist the driver education itinerant service. This relationship was not publicly disclosed as required by General Municipal Law. The value of services provided by the driving school during the audit period was \$13,007.

## **Recommendations**

3. Ensure services provided solely by third parties are not offered as aidable services to districts.
4. Submit a revised Itinerant Driver Education Cooperative Service Application to the Department to reflect the use of the consultant in providing services.
5. Publicly disclose all related party transactions.

## **Comments of Steuben-Allegany BOCES Officials**

Steuben-Allegany BOCES officials agreed with these recommendations.

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# Opportunities to Improve Management Processes

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Management is responsible for establishing effective management processes or controls. Management controls include establishing the goals and objectives of the organization and the methods and procedures to ensure that the goals are met. These procedures include areas such 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 identified several opportunities for improvement.

## Documentation of Credit Card Usage Needs Improvement

The 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 \$27,307 in credit card charges and noted a lack of complete documentation for \$5,460 of these charges. The receipt was missing in some instances and in two cases there was no signature to indicate that the transaction was proper.

- 10.5 percent (\$2,867 of \$27,307) of the charges were not supported by copies of the receipts and
- 9.5 percent (\$2,593) of the charge receipts were not signed by the person traveling.

Table 2 illustrates the nature of the expenditures that were not fully documented.

**Table 2**  
**Missing Credit Card Documentation**  
**by Type of Expenditure**

<b>Expenditure</b>	<b>Receipt Missing</b>	<b>No Signature</b>	<b>Total</b>
Lodging	\$1,503	\$2,445	\$3,948
Airfare	775		775
Food	42	\$148	190
Gas	11		11
No Description	535		535
Total	\$2,866	\$2,593	\$5,459

Processing credit card transactions without complete documentation increases the risk that the Steuben-Allegany BOCES credit card could be used for unauthorized purposes or excessive charges.

## **Documentation of the Allocation of Operations and Maintenance Costs Needs Improvement**

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 should enable a prudent person, familiar with functions of the organization, to determine that the methods and the underlying basis for allocation are reasonable and consistent.

Steuben-Allegany BOCES allocated \$965,665 in Operations and Maintenance (O&M) costs to other areas for the 1995-96 school year. Steuben-Allegany BOCES allocations are made through a number of methods, including direct charging, FTE employees, number of computer terminals and square-footage. The allocation of O&M charges for the administration building was based upon the relative square-footage occupied by each program. However, Steuben-Allegany BOCES did not retain documentation of the square-footage used in the calculation.

As a result, Steuben-Allegany BOCES needed to recreate the data used in the calculation. A review of these calculations found it to be reasonable and supported. However, Steuben-Allegany BOCES needs to retain the information necessary to support the allocation of costs.

## **Controls Over the Use of Steuben-Allegany BOCES Vehicles Should be Strengthened**

The Guide, Volume 2, 11.0101, states 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.

Adequate internal controls over assets should include a system to track the locations and use of assets to ensure they are used for only authorized purposes. Vehicle mileage logs that require

beginning and ending odometer readings and destination help ensure that vehicles are only used for authorized trips and also help schedule periodic maintenance. The mileage logs can also be used to monitor fuel usage and identify vehicles that are under utilized.

Another accepted practice is for public organizations to identify their vehicles through a logo as official vehicles. This serves as an additional control over unauthorized use. At the time of the audit, Steuben-Allegany BOCES had 76 vehicles: heavy equipment, 25; cars, 27; trucks, 12; buses/vans, 4; other, 8.

The audit found that Steuben-Allegany BOCES should initiate improved controls over vehicles. Steuben-Allegany BOCES did not require employees to record vehicle use in a mileage log for each vehicle. As a result, monitoring vehicle usage to ensure proper use and adequate maintenance schedules was minimal. The use of a mileage log helps to provide assurance that the vehicles are used for authorized purposes and provides management with data on the extent that vehicles are used in order to plan for replacement. In addition, the audit found Steuben-Allegany BOCES does not require that Steuben-Allegany BOCES logos be affixed to vehicles. Steuben-Allegany BOCES has adopted a policy to require that mileage logs be maintained. A mileage log also can be used as a basis for determining any personal use of a vehicle which may in some cases have income tax implications for the employee.

### **Additional BOCES Policies Should be Developed and Implemented**

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. 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.

The audit noted certain written policies that Steuben-Allegany BOCES should add to its official policies. These include policies which:

- Prohibit the payment of spousal expenses during conferences.

- Establish reasonable lodging and meal expenses rules for reimbursement.
- Prohibit the personal use of Steuben-Allegany BOCES vehicles.
- Prohibit the reimbursement of personal travel expenses.

The addition of these suggested policies will make staff better informed on appropriate reimbursable expenses associated with official travel.

## **The Internal Audit Function Should be Streamlined**

Education Law, Section 1950 (4)(k), states the Board of Cooperative Educational Services shall have the power and duty to appoint an auditor to approve claims for purchases. This shall be subject to the laws relating to Union Free School Districts.

Education Law, Section 1724, states that no claim shall be paid unless an itemized voucher is approved by the officer whose action gave rise to the claim, shall have been presented to the board of education, and shall have been audited and allowed.

Steuben-Allegany BOCES maintains a two-step internal audit review of payments. The first step is prior to the payment being made and the second step is after the fact. As a result every payment is reviewed twice. The audit believes the BOCES has an opportunity to improve and streamline the internal audit function.

The first step in Steuben-Allegany BOCES' internal audit process involves a clerical review of the potential payments to assure the adequacy of the documentation, and the accuracy of the payment amount and payee. The designated BOCES' internal auditor, who is also the Director of Special Projects, conducts a second review after the payment has been made. This review also examines the adequacy of documentation, assesses compliance with BOCES purchasing procedures and determines if the expense was reasonable.

Due to the workload of the internal auditor, the second review is often performed several weeks after the first, and therefore after payment is made. As a result, the control is only effective as a deterrent to avoiding proper procedure, not as a preventative control to assure that all payments are proper.

The designated internal auditor communicates the results of the review to the clerk who performed the initial review through

review notes. The audit reviewed the comments made by the internal auditor to determine if the clerical review provided sufficient control over the payment process. The audit found that there were significant issues raised during the internal audit that indicated a weakness in the clerical review.

The audit reviewed 207 internal audit comments made during 1995-96. Steuben-Allegany BOCES officials indicated that these represent the only comments on 7,957 payments made. This would represent an error rate of 2.6 percent. The comments included such observations as payments without proper receipts; payments without evidence of obtaining quotes or bids; and payments where the reviewer needed to verify that the payment was acceptable.

The audit believes that the double review of each payment is an inefficient use of staff time. The initial review should constitute the internal audit review. The person conducting that review should be trained to completely examine the appropriateness of a payment. If a subsequent review is conducted it should be on a sample basis and used to further train the initial reviewer.

## **Inventory Controls**

The Guide, Volume 1, Subsection 3.2010, states that it is important to maintain adequate fixed asset records to meet the requirements of Generally Accepted Accounting Principles (GAAP), and as a valuable tool for controlling fixed assets and planning replacements. The Guide, Volume 2, Subsection 2, 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.

Education Law, Section 1950(18), states that "on or before January 1, 1997, each BOCES shall develop and adopt a formal policy on personal property accountability." This shall include procedures for periodic inventory of personal property.

Adequate internal controls include maintaining accurate accounting and inventory records and performing periodic comprehensive physical inventories of its assets. Steuben-Allegany BOCES maintains a list of current assets to identify the value for insurance purposes. However, this list is missing

information. In addition, the list has not been periodically verified by physical inspection needed to comply with requirements for accounting for personal property.

The audit selected one location to test the accuracy of the equipment list. The audit determined that three of the 12 (one typewriter and two computers) items sampled from the list could not be located. In addition, three of the items found (one copier and two printers) were not listed in the inventory record.

The audit observed some equipment with tags indicating Steuben-Allegany BOCES ownership. However, Steuben-Allegany BOCES does not require that equipment be tagged. Some departments have taken it upon themselves to tag the equipment; however, the tag numbers are not recorded in the inventory system.

Steuben-Allegany BOCES needs to improve its accountability over personal property in order to control valuable assets. Steuben-Allegany BOCES cannot ensure that assets shown on their internal records exist and are being used for authorized purposes. Fixed assets are likely to be overstated on their internal records. In addition, there is a possibility that Steuben-Allegany BOCES is paying inaccurate insurance premiums for its assets.

## **Recommendations**

6. Require supporting documentation prior to payment of credit card invoices.
7. Maintain documentation of the methodology used to allocate O&M expenses to other CO-SERs.
8. Maintain logs in each BOCES vehicle to account for usage.
9. Affix a Steuben-Allegany BOCES logo to all Steuben-Allegany BOCES vehicles for identification.
10. Implement a process to account for the value of the personal use of Steuben-Allegany BOCES vehicles as employee income.
11. Consider adopting new policies and procedures for the areas noted on pages 10 and 11.

12. Assess the efficiency of the internal audit function and consider limiting the second review to a sample of transactions.
13. Develop and implement an inventory control system. Include the identification number of all assets and a periodic physical inspection.

### **Comments of Steuben-Allegany BOCES Officials**

Steuben-Allegany BOCES officials agreed with recommendations 6 through 12. In regard to recommendation number 13, they state that the inventory control system was in place at the time of the audit.

Contributors to the Report  
Steuben-Allegany BOCES

- James Conway, Audit Manager
- Daniel McCarthy, Auditor-in-Charge
- Melissa VanSantvoord, 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.