
Audit Report

Sullivan County
Board of Cooperative Educational Services

For the Period

July 1, 1997 through June 30, 1998

BOC-0499-10

March 14, 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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March 14, 2000

Mr. Joseph L. Abel
Board President
Sullivan BOCES
PO Box 237
Jeffersonville, New York 12748

Dear Mr. Abel:

The following is our final audit report (BOC-0499-10) related to the audit of Sullivan Board of Cooperative Educational Services 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

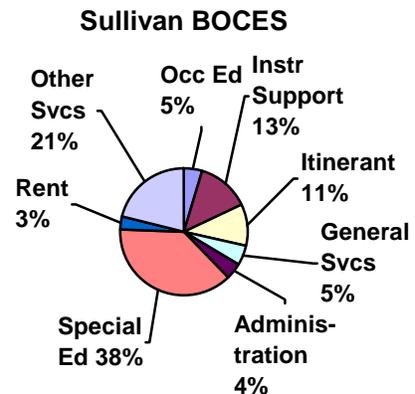
Enclosure

cc: Commissioner Mills, R. Cate, G. Illenberg, J. Kadamus, T. Sheldon, S. Spear, B. Stambler, C. Szuberla, C. Foster (DOB), H. Hoffman (OSC), M. Handler, District Superintendent of Schools

Executive Summary

Sullivan BOCES ranked as the 33rd largest BOCES in the State, in terms of total general fund expenditures (\$14,558,934), for the 1997-98 school year.

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



Background and Scope of the Audit

The audit examined management practices, records and documentation related to select areas of Sullivan 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.

- Sullivan BOCES overclaimed 20,298.75 contact hours for EPE (\$71,046) (pages 3-4).
Sullivan BOCES corrected an error in the computer system that did not accurately account for contact hours for some students.
- Sullivan BOCES did not allocate EPE expenses on a consistent basis (\$39,310) (pages 4-5).
Sullivan BOCES states they will strive to be more consistent in identifying which individual expenses are being transferred.
- Opportunities exist to improve management processes relating to investment policies, documentation for travel and credit cards expenses, board members' spouses' travel expense reimbursement, and inventory control (pages 6-13).
Sullivan BOCES officials have recognized the opportunity to improve in these areas and have taken necessary steps to enact the recommendations.

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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.

Sullivan BOCES, headquartered in Liberty, New York, was established to be a means for the school districts of Sullivan County 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.

Sullivan BOCES serves 10 component districts which enroll more than 11,000 students. Sullivan BOCES ranked as the 33rd largest in the State, in terms of total general fund expenditures, for the 1997-98 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 Sullivan BOCES for the period July 1, 1997 through June 30, 1998. This was a financial related audit and the objectives were to:

- obtain an understanding of management controls and obtain reasonable assurance on compliance with laws, regulations and policies that are significant to the audit objectives.
- verify that BOCES only incur costs that are reasonable and necessary to carry out their responsibilities.
- verify that Employment Preparation Education contact hours were accurately reported and expenditures were allowable and claimed in accordance with Education Law Section 3602(24) and Part 168 of the Regulations of the Commissioner.

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

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

Employment Preparation Education

Sullivan 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.

Sullivan BOCES received a total of \$609,728 in EPE aid for the period July 1, 1997 through June 30, 1998, based on reported contact hours. The audit found that Sullivan 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 Sullivan 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 Sullivan BOCES.

Documentation of Reported Hours

School districts and BOCES generate EPE aid by reporting contact hours and expenditures on EPE State Aid Claim Form SA-160 (.1 and .2). Part 168.2 of the Regulations defines a contact hour as 60 minutes of instruction given by a teacher in an approved program. To ensure that EPE aid paid is 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 attendance records retained by Sullivan BOCES did not support the total number of contact hours claimed. Errors identified included both contact hours for eligible students that were not claimed and contact hours that were claimed for ineligible students. In total, Sullivan BOCES overstated contact hours by 20,298.75 hours as shown in the following table.

Table 1
Undocumented Contact Hours

Hours Reported:	
SA-160.1	83,850.00
SA-160.2	<u>90,358.00</u>
Hours Claimed	174,208.00
Total per audit	<u>153,909.25</u>
Difference	20,298.75
Rate per hour	<u>\$3.50</u>
Questioned aid	<u>\$71,045.63</u>

Source: Sullivan BOCES records

Intake forms were improperly completed for certain students who have a foreign high school diploma. In addition, students with a U.S. high school or equivalency diploma were erroneously counted as eligible students due to a computer software problem. EPE aid generated by contact hours was overstated by \$71,045.63 (20,298.75 hours at \$3.50 per hour).

Sullivan BOCES officials agree that attendance records do not support the total number of contact hours claimed. They state that a computer programming error did not accurately account for contact hours for some students. They explained that the error has been corrected.

Method for Allocating Certain Expenses Needs Improvement

Part 168.4 of the Regulations states that EPE Program funds may be spent only for personal services, employee benefits, supplies and materials, contractual services, travel expenses, staff development and training, and other such expenditures approved by the Commissioner. Such expenditures shall be made only for EPE Program purposes. Expenditures related to more than one service should be prorated accordingly. In order to ensure that components pay only for services received, allocations should be reasonable, accurate and adequately supported.

Certain expenses related to both the EPE Program and other programs (Adult and Alternative Education) were not allocated on a consistent basis. These expenses included rent, utilities, snowplowing, advertising and travel expenses for a total of \$39,310. When allocating the cost of printing their Spring/Summer Brochure, Sullivan BOCES assigned 67 percent of the costs to EPE. As a result, the audit used this rate for allocation purposes.

It should be noted that EPE aid is limited to the lesser of income generated by contact hours (multiplied by the approved rate) or the amount of eligible EPE expenditures. As a result of the overclaimed contact hours previously reported, these expenditures would not result in a further reduction in EPE aid. The finding is presented to show the potential impact had EPE revenue exceeded the amount of eligible EPE expenditures.

Without a consistent method to allocate costs between programs, Sullivan BOCES may inaccurately charge expenses to programs.

Sullivan BOCES officials believe they have been fairly consistent in allocating expenses, but will strive to be more consistent in identifying which individual expenses are being transferred.

Recommendations

1. Improve procedures to ensure that only eligible contact hours are tabulated and claimed for EPE aid.
2. Improve procedures to ensure EPE expenses are allocated on a consistent basis.

Comments of Sullivan BOCES Officials

Sullivan 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 formulating an investment policy, inventory control, documentation of travel expenses, unnecessary and unreasonable expenses, and improving policies.

Investment Policy

Section 39 of the General Municipal Law requires that each local government, including BOCES, adopt by resolution a comprehensive investment policy which details the local government's operative policy and instructions to officers and staff regarding the investing, monitoring and reporting of funds of the local government. The investment policy should be reviewed annually.

Sullivan BOCES has not adopted a comprehensive investment policy and is not in compliance with Section 39 of the General Municipal Law. In addition, Sullivan BOCES has exposed itself to the potential risks associated with not properly monitoring, controlling, depositing, and retaining investments and collateral.

Sullivan BOCES officials agree they have not adopted a comprehensive investment policy and state they will present a policy to the Board for review and adoption.

Travel Allowance in Lieu of Expenses

Travel and expense reimbursements to local government employees are primarily governed by the General Municipal Law. Local board policies and Internal Revenue Service (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 Office of the State Comptroller's Financial Management Guide for Local Governments (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." Section 77-c allows municipalities the option to pay meal expenses based on a per diem meal allowance schedule, under certain conditions.

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."

Sullivan BOCES reimburses certain employees a fixed amount per month as a travel allowance in lieu of expenses. Assistant Superintendents receive \$400 per month and Directors receive \$300 per month. This allowance covers such business expenses as personal car mileage, tolls, parking, and meals. To meet IRS requirements, Sullivan BOCES requires that these employees provide a summary accounting of expenses on a quarterly basis.

The IRS requires detailed accounting of travel and meal expenses, including date, time, place, with whom, and purpose. The taxable amount of these payments, if any, is calculated and reported as required. Expenses in excess of the allowance amount are not reimbursed by Sullivan BOCES. The quarterly accounting of expenses submitted by employees does not meet the requirements of the General Municipal Law because the accounting is done in summary form with no receipts included. Without receipts for meals and miscellaneous expenses, there is no evidence that an expenditure was actually made. As a result, expenses may be reimbursed that are not actual or necessary.

Sullivan BOCES could pay meal expenses based on a per diem meal allowance schedule, which would obviate the need for receipts, however the board has not adopted such a policy. In addition, some employees' expense logs, by themselves, do not adequately explain the business purpose of certain expenses.

Sullivan BOCES officials do not concur that travel allowance documentation is insufficient to ensure that expenses are actual and necessary. They state that each individual is required to keep track of trip destinations and mileage, as well as supporting documentation for other expenses such as meals. They further state that each individual is required to submit quarterly summary statements to ascertain the amount of expenses incurred for that timeframe. Should the dollar amount received

exceed the expenses, that amount will be reported as income. If the individual does not report any expenses, the total travel allowance will then be shown as income.

Sullivan BOCES officials state they will continue to require documentation to support expenses submitted by those individuals seeking direct reimbursement of travel expenses meeting the requirements of the General Municipal Law. For those individuals receiving a travel allowance, Sullivan BOCES will ensure that more detail is provided to support the expenses documented.

Auditor's Note

The documentation requirements, as specified in the General Municipal Law, are more stringent than IRS requirements. Sullivan BOCES officials need to recognize these differences and require employees receiving allowances to adequately document their expenses to meet General Municipal Law requirements.

Recommendations

3. Adopt a comprehensive investment policy.
4. Improve documentation of reimbursable expenditures by requiring detailed receipts.

Comments of Sullivan BOCES Officials

Sullivan BOCES officials concur with these recommendations.

Documentation Needs Improvement for Credit Card Expenses

The Guide, Section 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."

In addition, Section 8.1025 of the Guide states "the board must be satisfied that the amounts claimed were actually and necessarily incurred by the claimant in the performance of official duties or in the authorized attendance at a conference or training school. Each claim must be in such detail, with appropriate documentation, that the board can see exactly and precisely what goods were purchased, services rendered or expenses incurred by the claimant. As a general rule, a claim must contain enough detail and documentation so that the board is supplied with sufficient information concerning the nature of the claim to enable it to determine whether the claim represents a lawful and proper charge."

Sullivan BOCES did not retain sufficient documentation to support certain credit card bills. For example, in many cases original hotel bills were not retained and matched against the credit card invoice, and documentation for meal expenditures did not include information of whom attended or the purpose of the expense. As a result, unreasonable and unnecessary expenses may be incurred. Questioned expenses totaled \$1,130.

Sullivan BOCES officials agree that documentation to support certain travel and meal reimbursements needs improvement. They state they will ensure that sufficient detail is provided to support credit card bills as well as supporting documentation for expenses incurred.

Competitive Bidding of Bus Transportation

Section 103 of the General Municipal Law requires all contracts for expenditures more than \$20,000 for public work and \$10,000 for purchases be awarded to the "lowest responsible bidder furnishing the required security after advertisement for sealed bids in the manner provided by this section."

The Guide, Subsection 8.3030, page 2, states that "it is the position of the Comptroller's Office that competitive bidding is required when it is known or can be reasonably expected that the aggregate amount to be spent on purchases of the same or similar commodities, or the same type of public work, will exceed the dollar thresholds over the course of a fiscal year. As a general guide, items of the same or similar nature which are customarily handled by the same vendor should be treated as a single item for purposes of determining whether the dollar threshold will be exceeded."

Section 305 (14) of the Education Law provides a board of education with authority to award transportation contracts through a Request for Proposal (RFP) or by competitive bid. Where the anticipated annual aggregate cost of the new contracts exceeds \$10,000, a board may make use of an RFP instead of advertising for bids. Should an RFP process be followed, certain criteria must be followed according to Law and the Section 156.12 of the Regulations.

Sullivan BOCES expended \$53,597 for transportation expenses using three separate vendors. Evidence of competitive bidding for these expenditures was not found during the audit. As a result, Sullivan BOCES did not comply with the legal bid requirements and cannot be certain that it obtained transportation services at the most economical price.

Sullivan BOCES officials agree that they did not competitively bid transportation services during the audit period. They state they will identify and solicit bids for those portions of the transportation services that lend themselves to the bidding process. Sullivan BOCES officials feel that the services that were obtained from the three vendors were most economical. Verbal quotes were obtained for field trips and job site transportation which comprise the bulk of the transportation expenses.

Personal Property

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, 11.1010, also 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. Adequate internal controls include maintaining accurate accounting and inventory records and performing periodic comprehensive physical inventories of assets.

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 the periodic inventory of personal property.

Section 170.3(i)(1)(iii) of the Regulations states "procedures for the perpetual inventory of all personal property, including the periodic inventory of valuable personal property having a unit resale value of \$500 or more on at least an annual basis, and the periodic inventory of all other personal property at least once every two years."

Sullivan BOCES attaches asset tags to some, but not all, personal property. Also, Sullivan BOCES has not performed a physical inventory in recent years. In addition, bar code technology, which can greatly assist in performing physical inventories, is not used. This reduces Sullivan BOCES' control over personal property which increases the risk that assets may not be adequately safeguarded against waste, loss and misuse.

Sullivan BOCES officials agree that not all personal property was tagged and that a physical inventory should be performed. However, formal policy does not dictate the tagging of all personal property. They have been bar coding computer equipment and are looking into expanding this to include all tagable personal property. A physical inventory had been scheduled and then changed due to the magnitude of physical moves that took place this past year. Sullivan BOCES is also looking into the bar coding of personal property and implementation of a workable program.

Questioned Expenditures

The Guide, Volume 1, Subsection 8.1025, states 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. The audit questioned items totaling \$262, including personal telephone calls, movies, flowers, tax, and spouses' expenses, from a sample of 50 transactions as actual and necessary.

Sullivan BOCES officials cannot be sure they purchased goods and services in an economical fashion and perhaps unnecessary expenses were paid. They agree that certain unnecessary expenses were paid and they will follow up on all expenses that might be deemed to be unnecessary to ensure that Sullivan BOCES receives reimbursement from the individual initiating such expenses or the vendor, if appropriate.

Expenses for Board Members' Spouses

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.

Article 8 of the New York State Constitution prohibits public agencies from using public funds for the benefit of private individuals. The payment of lodging expenses of spouses (even if later reimbursed) is in violation of Article 8.

Sullivan BOCES paid for the meals of board members' spouses at a Vocational Industrial Club of America (VICA) dinner (nine dinners at \$6.50 each). They also initially (later reimbursed) paid for lodging expenses for the spouses of board members at the July 1997 Rural School Conference. As a result, unnecessary expenses totaling \$771 were incurred.

Sullivan BOCES officials agree that the payment for board members' spouses should not have occurred. They do not agree that the payment for lodging expenses for the Rural Schools Conference, reimbursed by the board members, was inappropriate. They explained that the payments were made for the convenience of their board members and it created no additional burden on Sullivan BOCES and thus it seemed easier to have Sullivan BOCES make the payments for registration and lodging and then obtain reimbursement. They agree they will not pay for board members' spouses' dinners or any expense they would not be entitled to.

Recommendations

5. Improve procedures to ensure that detailed receipts are provided for travel and credit card expenses.

6. Improve procedures to ensure that competitive bidding is utilized where needed.
7. Improve procedures to ensure that personal property is tagged and perform periodic physical inventories.
8. Improve procedures to ensure that all expenditures are reasonable and necessary.
9. Improve procedures to ensure that expenses are not incurred for board members' spouses.

Comments of Sullivan BOCES Officials

Sullivan BOCES officials concur with these recommendations.

Contributors to the Report
Sullivan BOCES

- Calvin Spring, Audit Manger
- William Lake, Auditor-in-Charge (AIC)
- Patricia Engel, Senior Auditor
- Charles Archibald, 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.