# Audit Report

Western New York
Independent Living Project, Inc.

For the Period

October 1, 1997 through September 30, 1998

RF-0899-1

April 28, 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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April 26, 2000

Mr. Dennis Kessel
Board President
Western New York Independent Living Project, Inc.
3108 Main Street
Buffalo, New York 14214

Dear Mr. Kessel:

The following is our final audit report (RF-0899-1) on the Western New York Independent Living Project, Inc. (ILC) for the period October 1, 1997 through September 30, 1998. The audit was conducted pursuant to Section 248.2(f) of the Regulations of the Commissioner of Education 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 a final audit report. Appendix D describes the process to be followed in the event of such disagreement.

Ninety days from the issuance of this report, ILC 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: P. Byron, R. Cate, R. Calhoun, W. Deschenes, M. DiVirgilio, L. Gloeckler, R. Gumson, J. LaFrank, B. McLane, T. Sheldon, M. Tierney, C. Foster (DOB), B. Mason (OSC), D. Usiak, Executive Director

# Executive Summary

## Background and Scope of the Audit

The Western New York Independent Living Project, Inc. (ILC) is an independent living center that provides services to individuals with disabilities. It spent about $1.9 million during the 1997 fiscal year in carrying out its activities which were funded in part from grants administered by VESID, including $247,660 in federal funds and $215,868 in State funds. VESID received several written complaints regarding the ILC and requested that the Office of Audit Services review the ILC's fiscal practices.

The purpose of the review was to determine that: expenses are properly accounted for and reported in accordance with applicable guidelines and regulations; expenses claimed for reimbursement are reasonable, necessary, directly related to the program, and adequately documented; all applicable revenue has been offset against reimbursable expenses; and to assess the adequacy of selected payroll practices.

The review concentrated on the complaints and specific areas of concerns and did not assess the ILC's overall operations or the adequacy of controls.

## Audit Results

The review determined significant improvements are needed in the record keeping, accounting and reporting of revenue and expenses. A summary of our findings follows.

- The ILC did not accurately charge expenses to the programs or activities benefiting from the expenses and also filed reports with the Department that were not accurate. For example, the ILC did not charge rent and utilities expenses to certain programs and activities located at the ILC, but charged the majority of these expenses to the VESID contract.

- The ILC incurred inappropriate expenses related to political activity and also incurred questionable expenses related to travel and credit card charges, donations, and others.

- ILC records supported salary amounts on the final expenditure report, but did not adequately support the basis for allocations of salary expenses to the VESID contract. In addition, the audit made a recommendation related to accrual records.

Agency Comments – The ILC refuted many of the findings but did not provide adequate documentation to support its point of view. The auditor’s notes following the ILC’s response address the disagreement. VESID will work with this ILC to clarify its expectations and the issues in the report.

# Table of Contents

# Introduction

We performed a review of selected fiscal practices of the Western New York Independent Living Project, Inc. (ILC). This report represents the results of the review.

ILC is an independent living center that provides services to individuals with disabilities. Its programs include peer counseling, advocacy, housing search assistance, information and referral, transportation, equipment loan, and other services. ILC spent about $1.9 million during the 1997 fiscal year in carrying out its activities. These activities were funded in part by $463,528 in grants administered by the State Education Department's (Department) Office of Vocational and Educational Services for Individuals with Disabilities (VESID). The funds included $247,660 in federal funds and $215,868 in State funds.

VESID received several written complaints regarding the general work environment, and personnel, grievance, and fiscal practices at the ILC. VESID staff developed an employee satisfaction survey and conducted a program audit of the ILC's program policies and practices. The results of the program audit and survey are being reported to the ILC in separate correspondence.

VESID staff also requested that the Office of Audit Services complete a review of the ILC's fiscal practices. The purpose of the review was to:

- determine that expenses are properly accounted for and reported in accordance with applicable guidelines and regulations;
- determine that expenses claimed for reimbursement are reasonable, necessary, directly related to the program, and adequately documented;
- determine that all applicable revenue has been offset against reimbursable expenses; and
- assess the adequacy of selected payroll practices.

To accomplish our objectives, we reviewed applicable laws, regulations, policies and procedures; interviewed Department and ILC management and staff; examined records and supporting documentation; sampled transactions on a non-statistical basis, and reviewed the final expenditure report and CPA audited financial statements. The review concentrated on the complaints and specific areas of concerns and did not assess the ILC's overall operations or the adequacy of controls.

Our review determined that the ILC did not accurately account for and report certain revenue and expenses, and incurred unallowable and questionable expenses. While ILC records supported salary amounts on the final expenditure report, the basis for the allocations of salary expenses to the VESID contract was not adequately supported. In addition, the ILC should provide its employees with copies of accrual records.

The ILC's comments about the findings and conclusions were considered in preparing this report and are included in their entirety as Appendix B.

# Accounting and Reporting for Revenue and Expenses

The ILC receives federal, State, county and city funding from several sources, including State agencies, Erie County, and the City of Buffalo. Each of these funding sources has specific eligibility and grant requirements. In order to help ensure the requirements are met, revenue and expenses for each major program, activity or grant should be separately accounted for and reported.

The Department's contract requires that the ILC maintain complete and accurate books, records, documents and accounts. It also requires the ILC to submit budgets, a final expenditure report, and certified financial statements. The contract includes sections on the budget, payment and reporting schedule, program workplan and others, but it does not include a section that defines the accounting requirements for the grants.

OMB Circular A-122, "Cost Principles for Nonprofit Organizations" (cost principles), establishes principles for determining costs for federal grants, contracts and other agreements with nonprofit organizations. The cost principles are designed to ensure that the federal government bears its fair share of costs. Agencies responsible for administering programs that involve federal awards to nonprofit organizations are required to implement the provisions of these cost principles.

In light of the federally funded portion of the contract and in the absence of specific contract requirements for accounting for costs, we relied upon the cost principles and generally accepted accounting principles for evaluating the appropriateness of the ILC's accounting and reporting of costs.

The accounting records and financial reports should show the actual costs of operating each program. Expenses should be charged directly to the specific program or activity receiving the benefit, whenever possible. Any expense that cannot be charged directly to a specific program or activity should be allocated to all programs benefited by the expense using a fair and reasonable method. Many contracts allow grantees to charge central administrative costs to the grant by using an indirect cost rate or a set percentage of the direct cost for the grant. The State Comptroller has issued guidelines stating that the State will only reimburse its fair share of allowable indirect costs. Furthermore, the guidelines state that if a contractor operates a program for a local government or private entity whose policy prohibits the reimbursement of indirect costs, those costs must be borne by the contractor and may not be allocated to the State.

Our review determined the ILC did not accurately charge expenses to the programs or activities benefiting from the expenses and also filed reports with the Department that were not accurate.

## Accounting for Certain Expenses

The ILC did not accurately account for or allocate expenses to the program or activities receiving benefit from the expenses. Rather, the ILC's practice was to charge expenses to the programs or activities that had available funding. Some specific examples follow.

- Rent expenses should be charged to programs and activities using a fair and reasonable basis, such as square footage. However, the ILC's practice was to charge rent to the various programs based on available funding. We were not able to calculate the extent of any over or undercharges because square footage documentation was not readily available. Nevertheless, it appears the ILC overcharged the VESID contract for rent, given the ILC charged $36,590, or 69 percent, of the rent to the VESID contract even though VESID only provided 24 percent of the Center's funding, according to the financial statements. Similarly, $6,800, or 68 percent, of the utility expenses were charged to the VESID contract without adequate documentation to show this amount was based on a fair and reasonable basis.

- The ILC maintains separate cost centers for the VESID administered and federally funded Native American Independent Living Services (NAILS) program and the Office for Mental Retardation and Developmental Disabilities (OMRDD) funded NAILS program. Expenses should be charged to each of these cost centers based on the benefit received and any allocations of costs should be based on a fair and reasonable method. However, the review determined the ILC did not charge expenses appropriately. For example, the ILC charged $31,946, or 95 percent, of the salary expense for the coordinator of the program to the VESID cost center, even though this individual provided services to both cost centers. Documentation was not available to show the basis for the allocation of the salary.

- Indirect costs such as central administrative costs should be charged to a cost center and allocated to each program or used to develop an indirect cost rate. The indirect cost rate would then be applied to each program's direct cost. The review determined the ILC charged many of the indirect costs to program cost centers. For example, the accounting records show $16,168 in telephone expenses were initially charged to the administrative cost center. However, this amount was reduced by $6,862, including $5,452 directly charged to the VESID contract. This resulted in increasing the cost base on which indirect costs are then allocated to the VESID contract.

As a result, the reported costs do not reflect the actual costs of the programs. In addition, the VESID contract is charged with expenses of other programs and a disproportionate share of indirect costs. This is not consistent with the cost principles or generally accepted accounting principles.

The ILC’s Executive Director and Accountant maintain the VESID contract is the backbone or catch-all of the ILC and any expenses, which cannot be charged to other funding sources, are appropriately charged to this contract. The Department maintains the accounting records should reflect the actual costs of operating each program and indirect costs must be allocated to all programs using a fair, reasonable and documented method.

## *Reporting Revenue and Expenses*

We reviewed the financial statements and compared the financial statements to the contract budget, the final expenditure report, and the accounting records. We identified numerous calculation errors on the contract budget, the final expenditure report, and the financial statements. In addition, we identified numerous inconsistencies among the final expenditure report, the financial statements, and the accounting records and also within the financial statements. The Center’s Accountant did not provide adequate explanations for the inconsistencies. Some specific examples follow.

- The program salary amounts for some employees working less than one full-time equivalent (FTE) position were not correctly calculated on the budget and final expenditure report. For example, the budget showed one employee with an annual salary of $24,689 was reported as .72 FTE and

$15,659 was allocated to the VESID contract. However, using the employee's annual salary and reported FTE (annual salary x program FTE), we determined the amount allocated should have been $17,776, or $2,126 more than the reported amount. Similarly, on the final expenditure report, one employee with an annual salary of $13,658 was reported as .86 FTE and $11,694 was allocated to the VESID contract rather than $11,746 ($13,658 X .86). Also, the basis for allocating the salary expenses to the VESID contract was not adequately supported.

- The contract budget and final expenditure report show direct costs of $396,517, while the financial statements for the same period show direct costs of $417,848, excluding equipment and purchased services. The difference would also imply that the indirect rate used for the budget and final expenditure rate was not the same as the one used for the financial statements.

- The reported rental expense varied among records. Note 3 of the financial statements shows the total rent expense of $59,840, while the supporting schedules of functional expenses in the financial statements show the rent expenses totaled $53,452. Furthermore, the detailed accounting records show the rent expense of $62,218.

- Expenses for depreciation, consultants, membership dues, and other accounts were not correctly reported on the financial statement's schedule of administrative expenses. The accounting records, Note 1 of the financial statements, and the statement of cash flows show the depreciation expense of $49,488. However, the schedule of administrative expenses shows the depreciation expense totaling $950, and the consultant expense totaling $49,488. Apparently the depreciation expense was incorrectly shown as the consultant expense. Also, the schedule of administrative expenses shows $579 in membership dues; however, the accounting records show the amount of membership dues was actually $950. We also identified other inconsistencies between the financial statement’s schedule of administrative expenses and the accounting records.

The inaccurate accounting and allocation of expenses, along with the number of errors and inconsistencies in reporting, raises questions as to the accuracy of the accounting records, the financial statements, and the final expenditure report. Due to time constraints, we did not attempt to determine the fiscal impact of these exceptions.

## Disallowed and Questionable Expenses

The VESID contract does not include a section that defines the allowability of costs, except in limited circumstances such as use of funds for political activity and the reimbursement rate for travel related costs. In light of the federally funded portion of the contract and in the absence of specific contract requirements addressing allowability of costs, we relied upon the cost principles in evaluating the appropriateness of reported costs. Using the provisions of the contract and the cost principles, we disallowed expenses for political activity and questioned the appropriateness of other costs, including travel and credit card charges, and donations. We also questioned the appropriateness of certain costs for which revenue was received.

### *Use of VESID Funding for Legislative Influencing Purposes*

The VESID contract states funds shall not be used for activities that may influence legislation or the election or defeat of any candidate for public office. Similarly, the cost principles do not allow the costs for any attempt to influence federal or State legislation "by urging members of the general public or any segment thereof to contribute or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign." However, the cost principles do allow the costs of "providing a technical and factual presentation of information….to a state legislature, or subdivision, member, or cognizant staff member thereof in response to a documented request…"

As part of the review of non-personal service costs charged to the VESID contract, the audit identified several items that may violate this contract restriction and the cost principles. In March 1998, the ILC rented three minivans for a three-day trip to Albany for ILC staff, Board members and consumers. The ILC charged the VESID contract at least $3,654 for this trip, including $1,850 for lodging, $1,150 for breakfast for 130 persons, $385 for the vehicle rentals, and $269 for restaurant charges. Documentation for the expenses did not include any record of who traveled or stayed in Albany or for whom the meals were provided. For example, the only support for the food and lodging expenses are charges shown on credit card statements. Other expenses were also likely incurred for this trip, but we were not able to identify them without a detailed review of all expenses and supporting documentation.

According to the ILC's Executive Director, the purpose of the trip was “Education Day for Legislators” and the $1,150 breakfast charge was charged to the VESID contract in error. All expenses related to this trip, a minimum of $3,654, appear to violate the contract provision prohibiting “activities that may influence legislation,” as well as the cost principles.

Similarly, in May 1998, the ILC rented a bus at a cost of $1,871 for a day trip to Albany for an independent living rally at the Capitol. Although the cost was charged to a general administrative account, not a VESID account, the charge, which is allocated among several government programs including the VESID contract, also appears to violate the contract provision prohibiting “activities that may influence legislation,” and the cost principles.

The ILC responded that the activities were consistent with contract goals for effective community and systems advocacy. Given the terms of the contract prohibiting the use of funds for influencing legislation and the contract goals for advocacy, the ILC should obtain clarification form VESID concerning the appropriateness of the use of funds for these types of expenses.

### *Documentation of Travel and Credit Card Expenses*

The contract requires that expenses for travel, lodging, and subsistence should be reimbursed at the per diem rate in effect at the time for NYS Management/Confidential employees. The costs must be reasonable, necessary, directly related to program, and sufficiently documented. The documentation should include actual invoices, hotel bills, receipts for meals, and other items. These records demonstrate that expenses are related to ILC business and also serve as justification for accounting of the expenses.

The review determined the ILC did not always maintain adequate documentation to support travel and other credit card expenses. The Executive Director did not complete travel vouchers and in many cases the only support for his travel consisted of credit card statements. In other cases, bills and receipts were attached. As a result, we were not able to determine the appropriateness of the expenses nor that the expenses were charged to the proper accounts. For example, the statement for April 1998 shows an

$1,850 charge for the Red Roof Inn in Albany. No receipt or other documentation was attached to show the purpose of the trip and for whom or even how many individuals the expenses were incurred. Without this information we were not able to assess the appropriateness of the credit card charges, or if the travel reimbursement rates were consistent with the rates for NYS Management/Confidential employees.

### *Donations*

The contract does not address donations, but the cost principles do not allow the costs of contributions and donations. The review determined the ILC charged the VESID contract $1,640 for “memberships,” some of which might more appropriately be called “donations.” For example, the Center became a supporting member of two other ILCs (Watertown and Slate Hill) at $25 each, and made a $20 contribution to the Lions Club and $10 to the Buffalo Police Benevolent Association. Although the dollar amounts are immaterial, we question whether one ILC should be a paying member of another ILC at VESID's expense and whether the other contributions are an appropriate use of public funds.

### *Revenue for Services Provided*

The contract states that the ILC should use any revenue it receives for services funded under this agreement to supplement services, or expand the existing program capacity. If the ILC does not use such funds to supplement services or expand program capacity, then the monetary obligation of the State shall be reduced by an equivalent amount of such funds received by the ILC. The review determined the ILC received revenues for services where the expenses were covered by the VESID contract. Some examples follow.

- The ILC received $1,488 from VESID, in addition to the contract amount, for fees for providing services to consumers from VESID's Buffalo District Office. However, the salary for the ILC employee providing the services was paid using funds from the VESID contract. In effect, VESID paid twice for these services.

- The ILC received $25,825 in transportation fees. This is in addition to any transportation fees that may have been reported as “contributions.” However, none of the fees for transportation were offset against the transportation expenses charged to the VESID, the Office of Mental Health or the OMRDD contracts.

- The Center charges the salary for the Interpreter Referral Coordinator position (1.0 FTE at a $24,000 salary) to the VESID contract. The financial statements and accounting records show other interpreter referral expenses of $16,346 and income of $38,060. The excess income of $21,714 was not offset against the VESID contract expenses.

The revenue received by the ILC for services funded by VESID was not used to reduce VESID's obligation, and it does not appear that all the revenue was used to expand or supplement services. This is evidenced by a $23,804 surplus (revenue in excess of expenses) for the year ending September 30, 1998. Based on this information, we question whether the ILC used the revenue to supplement or expand services.

## Salary Expenses

We reviewed payroll and related records for eight employees charged to the VESID contract. In general, we found that reported salary amounts for these employees were supported by payroll records, personnel files, employee timesheets and accrual records maintained by the Accountant. However, none of the allocations of salary expenses to the VESID contract were adequately supported. In addition, we made a recommendation related to accrual records.

The Accountant maintains records of employees’ vacation, sick and personal time accruals. Although employees need only ask their supervisors or the Accountant for their accrual balances, they are not provided a regular written report or schedule of actual accrual earnings and usage. We recommended that the ILC provide, on a regular basis to each employee, a written report detailing accrual balances, earnings and usage.

## Recommendations

1. Accurately account for and allocate expenses to the programs or activities receiving benefit from the expenses. This applies to both direct and indirect expenses.

2. Ensure the accounting records and financial reports reflect the actual costs to operate each program.

3. Ensure accounting information is accurately and consistently recorded and reported.

4. Maintain adequate documentation to support the basis for allocating costs to the various programs and activities.

5. Provide VESID with documentation to show the $1,150 breakfast expense charged to VESID in error was in fact corrected.

6. Request clarification from VESID regarding the use of funding for political or legislative influencing purposes.

7. Maintain adequate documentation to support travel expenses.

8. Ensure the rates for travel costs claimed under the VESID contract are consistent with the rates for NYS Management/Confidential employees.

9. Do not use VESID funding to make donations.

10. Provide VESID with documentation showing how the revenue for the year in question will be used to expand and supplement services. If the funds will not be used for this purpose, reduce the Department's obligation for the current contract.

11. Ensure that, in the future, any revenues received for services funded under the VESID contract are used to supplement services, to expand the existing program, or to reduce the State's obligation. Also, maintain adequate documentation to support the accounting of the revenue.

12. Provide on a regular basis to each employee a written report detailing accrual balances, earnings and usage.

## Agency Comments

The ILC did not provide a formal response to address each of the recommendations. The ILC refuted many of the findings but did not provide adequate documentation to support its point of view. The ILC's response is included as Appendix B to this report. The auditor's notes are included as Appendix C and address the disagreement. VESID will work with the ILC to clarify its expectations and the issues in the report.

Appendix A

Contributors to the Report
Western New York Independent Living Project, Inc.

- Michael Abbott, CPA, Audit Manager
- Rosemary Ellis Johnson, CPA, Auditor-In-Charge

**WNY Independent Living Project, Inc.**
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February 25, 2000

Mr. Daniel Tworek
The State Education Department
Office of Audit Services
Room 524 Education Building
89 Washington Ave.
Albany NY 12234

Dear Mr. Tworek:

Thank you for the opportunity to respond to the Draft Audit Report of The Western New York Independent Living Project, Inc.(WNYILP) dated January 31, 2000.

Enclosed is our response to the findings and observations of the Department's Audit. Please note that in providing our response, we identify the Draft Audits comments and observations as "AUDIT" and our observations and comments as "WNYILP RESPONSE". There is also a set of attachments that support our comments and positions.

If there are any questions or further information, please feel free to contact me at your convenience.

Sincerely,

Douglas J. Usiak
Executive Director

DJU/sas

Enc.

*The WNY Independent Living Project, Inc., a family of agencies, is a pioneering organization which promotes community change, freedom of choice and empowers individuals with disabilities to exercise control and actualize potential for full inclusion into society.*

**AUDIT:**
Accounting for Certain Expenses

Rent expenses should be charged to programs and activities using a fair and reasonable basis, such as square footage. However, the ILC's practice was to charge rent to the various programs based on available funding. We were not able to calculate the extent of any over or under charges because square footage documentation was not readily available. Nevertheless, it appears the ILC overcharged VESID for rent, given the ILC charged $36,590, or 69 percent, of the rent to the VESID contract even though VESID only provided 24 percent of the Center's funding, according to the financial statements. Similarly, $6,800, or 68 percent, of the utility expenses were charged to VESID without adequate documentation to show this amount was based on a fair and reasonable basis.

**WNYILP RESPONSE:**

The Center does maintain cost centers of specific programs where it is required by the funding program. However, the Center does not agree with the observation of the Department in this audit as to the use of funds that it identifies as VESID's funds. Both Federal and State funds are appropriations that are designated to the WNYILP Inc. for funds to be used in the operations of the Independent Living Center and its programs. As outlined in Article 23-A, Service Centers for Independent Living of the New York State Charter, and as defined by federal law in the Rehabilitation Act title VII, these funds are specifically to be used for operations of centers.
These funds are only to be administered by VESID, they can not be redirected to any other program, service or department, by VESID and/or the Department. They are funds established by NYS law and Federal law, directed to identified and accepted Centers. These funds are to be used by only the Center as they designed and approved by the annual contract.
The regulations of the federal funds, and the standards developed by VESID for the State funds specifically state that all programs are to meet specific standards regardless of public or private sources of revenues.

Unlike other program funds from a variety of State or local sources, the IL funds dictate the policies, programs and processes of the Center. We are required to report all consumers served, maintain all records a specific way for all consumers, provide total access of all programs, maintain a consumer controlled board of directors, and have the majority of supervisors and staff as persons with disabilities. The IL funds from both Federal and State sources are the only funds that cross over all aspects of the Center's operations and programs, thereby funds are used where approved by VESID administered contracts.

#1 In discussion with personnel at the Region II RSA office, they confirmed that Federal funds did not need to be sorted out according to program specific activity. Since IL funds override all aspects of the program, VESID and the RSA has never requested that we do so.

#2 Regarding the charge that the ILC charged 69 percent of rent to the VESID contract, actually the lions share of that charge was to the Title VII portion of the contract (see amended budget for 98), or $28,440 to Title VII. Only $8,150 was charged to the State VESID portion of the contract or 13 percent.

**AUDIT:**

The WNYILP maintains separate cost centers for the VESID funded Native American Independent Living Services (NAILS) program and the Office for Mental Retardation and Developmental Disabilities (OMRDD) funded NAILS program. Expenses should be charged to each of these cost centers based on the benefit received, and any allocations of costs should be based on a fair and reasonable method. However, the review determined the ILC did not charge expenses appropriately. For example, the ILC charged $31,946, or 100 percent, of the salary expense for the coordinator of the program to the VESID funded cost center, even though this individual provided services to both cost centers.

**WNYILP RESPONSE:**

The NAILS program is a Federally funded program that does not include any state funds, except for those that are offered in kind by the WNYILP, Inc. The NAILS program is an outreach satellite program of the WNYILP. In its efforts to provide IL programs and services to Native Americans in Western New York, this program has to maintain separate documentation for the annual 704 report to the Federal Government, (see attached amended budget for FY 98), and also is required to meet state standards of the VESID Administered program as well. Since any program that NAILS seeks must meet both the state and federal process, procedures and standards, it is not necessary to recoup funds from these other programs to supplement the coordinator's salary, just to return the IL portion back to the program activity. Unlike OMH, OMRDD and many other state programs that are funded, these programs do not dictate how a Center must run, who it should hire, what its board must be constituted, and how records of all consumers must be kept. It is clear that IL funds are funds that have been directed to organizations for operations, and not just service or program specific.

Regarding the charge of $31,946 or 100 percent of the NAILS coordinator being charged to the Title VII contract, this observation is incorrect. Only $30,349 of the coordinator's salary was charged to Title VII. We realize that this is still 95 percent of the salary, but it reflects an effort of the Native American Independent Living Services effort to share costs.

The NAILS program is an under funded satellite office, in which the two other programs that the NAILS coordinator supervises are two relatively minor programs that truly lack adequate funding. For example, the NAILS Coordinator supervises a MICA program that has only $25,000 in total funding. This program clearly could not begin to cover costs should it be made to "stand alone". It clearly needs to be part of a center that has the resources to be able

#3 to absorb costs such as rent, utilities, telephone, supervision, etc. To contend that the ILC should allocate full indirect costs to a program such as MICA, and consequently, receive no reimbursement for those costs, is to, effectively, eliminate small programs such as this from even being considered for acquisition at the ILC. The result of turning away from these funds would then result in lost programming opportunities for Native Americans and their respective programs.

**AUDIT:**

Indirect costs such as central administrative costs should be charged to a cost center and allocated to each program or used to develop an indirect cost rate. The indirect cost rate would then be applied to each program's direct cost. The review determined the ILC charged many of the indirect costs to program cost centers. For example, the accounting records show $16,168 in telephone expenses was initially charge to the administrative cost center. However, this amount was reduced by $6,862, including $5,452 directly charged to the VESID contract. This resulted in increasing the cost base on which indirect costs are then allocated to the VESID contract.

As a result, the reported costs do not reflect the actual costs of the programs. In addition, the VESID contract is charged with expenses of other programs and a disproportionate share of indirect costs. This is not consistent with the cost principles or generally accepted accounting principles.

The ILC's Executive Director and Accountant maintain the VESID contract is the backbone or catchall of the ILC and any expenses, which cannot be charged to other funding sources, are appropriately charged to this contract. The Department maintains the accounting records should reflect the actual costs of operating each program and indirect costs must be allocated to all programs using a fair, reasonable and documented method.

#4 **WNYILP RESPONSE:**

The Center would comply with this observation if the Department would forward an accounting procedure guide to this agency. On several occasions the Center requested such information in the past and the response was that the Department was working on such policies. The Center again conducts the business as it has over the last 20 years. Budgets are submitted to VESID for approval and billed accordingly. Areas that are either over funded or under funded are identified and the Department is submitted a letter requesting that costs are either amended or modified. These letters are sent to the Department for approval (see attached letter for final budget alterations for FY 98)

**AUDIT:**

Reporting Revenue and Expenses

We reviewed the financial statements and compared the financial statements to the contract budget, the final expenditure report, and the accounting records. We identified numerous calculation errors on the contract budget, the final expenditure report, and the financial statements. In addition, we identified numerous inconsistencies among the final expenditure report, the financial statements, and the accounting records and also within the financial statements. The Center's Accountant did not provide adequate explanations for the inconsistencies. Some specific examples follow.

The program salary amounts for some employees working less than one full-time equivalent (FTE) position were not correctly calculated on the budget and final expenditure report. For example, one employee with an annual salary of $24,689 was reported as .72 FTE and $15,659 was allocated to the VESID contract. However, using the employee's annual salary and reported FTE (annual salary x program FTE), we determined the amount allocated should have been $17,776, or $2,126 more than the reported amount. Also, the basis for allocating the salary expenses to the VESID contract was not adequately supported.

**WNYILP RESPONSE:**

#5 We do not agree that FTE's were not correctly calculated on the final expenditure report. While it is true that the original budget had an improperly calculated FTE, that budget was amended and the proper amounts were reported. The final report also had properly reported FTE's. It must be noted however, that the dollar amounts were never incorrectly stated on any of the salary lines in either the budget or the final expenditure report.

**AUDIT:**

The contract budget and final expenditure report show direct costs of $396,517, while the financial statements for the same period show direct costs of $417,848. The difference would also imply that the indirect rate used for the budget and final expenditure rate was not the same as the one used for the financial statements.

**WNYILP RESPONSE:**

#6 The final expenditure report shows direct costs of $396,517 while the financial statements show direct costs of $418,816. (We were unable to determine how the auditor arrived at the $417,848. Regardless, this is an example of under charging VESID. The controller only charged the VESID contract for amounts limited to the budget and available for reimbursement. Also, had direct costs been charged to the final report, indirect costs would have increased from $67,011 to $70,780. The consequence of this is an under charge to VESID in the amount of $26,068.

The first paragraph on page 6 states, "The contract budget and final expenditure report show direct cost of $396,517, while the financial statements for the same period show direct cost of $417,848." The following is a statement from the attached response from the ILP's independent auditor)

"I am assuming that when they refer to financial statements they are referring to the financial statements that were prepared by me, not internal financial statements prepared by the ILC's controller. On the financial statements that I prepared on page 4 under expenses is listed NYS VESID contract of $418,816 which agrees with the additional information schedule on page 27, Schedule of Functional Expenses for the VESID contract. Copies of page 4 and page 27 from my financial statements are attached for your review. I am unable to identify were they arrive at their amount of $417, 848".

**AUDIT:**

The reported rental expense varied among records. Note 3 of the financial statements shows the total rent expense of $59,840, while the supporting schedules of functional expenses in the financial statements show the rent expenses totaled $53,452. Furthermore, the detailed accounting records show the rent expense of $62,218.

**WNYILP RESPONSE:**

Regarding reported rental expenses, Note 3 is a schedule included in the audit of which the primary purpose is to document the current and future rent payment liabilities of an organization. Consequently, when the auditor did the report he only included rent that was actually paid during the fiscal year. That total is $59,840. The actual expense to the agency was $62,218, which was reported on the statement of activities. The difference of $2,378 was an amortized charge of rental expense for prepaid rent that was made at the Kenmore Avenue location. However, the schedule of functional expenses did only reflect $53,452 in rent expense. The problem occurred in the schedule of administrative expenses. The rent expense was skipped and actual utilities expense of the agency were recorded on that line.

(The following is from the attached letter from the ILP's independent auditor)

"The second paragraph on page 6 refers to the rent expense in Note 3 and the rent expenses in the additional information schedules of the financial statements and the detailed accounting records. Yes there is an error in Note 3 is $62,218. The additional information schedules total to $53,452 of rent expense which is because of an input error by my clerical staff when they processed the financial statements. The rent expense on page 36 of additional information, Schedule of Administrative Expenses was in error inputted on the wrong line. Rent expense was entered on the Equipment contract line for $11,628. The rent expense of $2,862 is the Utilities expense for that period."

There were admittedly several problems on the schedule of administrative expenses. In addition to the problem of the rent mentioned above, depreciation and consultant expenses were inverted on this schedule. However, this schedule is not one of the core documents required under auditing standards.

**AUDIT:**
Expenses for depreciation, consultants, membership dues, and other accounts were not correctly reported on the financial statement's schedule of administrative expenses. The accounting records, Note 1 of the financial statements, and the statement of cash flows show the depreciation expense of $49,488. However, the schedule of administrative expenses shows the depreciation expense totaling $950, and the consultant expense totaling $49,488. Apparently the depreciation expense was incorrectly shown as the consultant expense. Also, the schedule of administrative expenses shows $579 in membership dues; however, the accounting records show the amount of membership dues was actually $950. We also identified other inconsistencies between the financial statement's schedule of administrative expenses and the accounting records.

The inaccurate accounting and allocation of expenses, along with the number of errors and inconsistencies in reporting, raises questions as to the accuracy of the accounting records, the financial statements, and the final expenditure report. Due to time constraints, we did not attempt to determine the fiscal impact of these exceptions.

**WNYILP RESPONSE:**
The following is from the attached ILP's independent auditor's letter.

The third paragraph on page 6 refers to the additional information schedule of administrative expenses. This schedule has several input errors which were not caught by my clerical staff. The audit report reflects what was wrong in that the depreciation expenses was incorrectly shown as the consultant expense. What the States audit report did not reflect was that for eleven consecutive lines in this schedule the amounts were all one line off. Which reflects the input errors on page 36 of a 38 page report. I would note that page 36 of the financial statements are for additional information as it is specified on page 23 of the Independent Auditor's Report on Additional Information. Page 23 states that "I conducted my audit in accordance with generally accepted auditing standards for the purpose of forming an opinion on the basic financial statements TAKEN AS A WHOLE. The additional information schedules on pages 24 to 38 for purposes as additional analysis and is not a REQUIRED part of basic financial statements. Such information has been subjected to the same auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements TAKEN AS A WHOLE." (Copy of page 23 is attached).

**AUDIT:**
Disallowed and Questionable Expenses

The VESID contract does not include a section that defines the allowability of costs, except in limited circumstances such as use of funds for political activity and the reimbursement rate for travel related costs. In light of the federally funded portion of the contract and in the absence of specific contract requirements addressing allowability of costs, we relied upon the cost principles in evaluating the appropriateness of reported costs.

Using the provisions of the contract and the cost principles, we disallowed expenses for political activity and questioned the appropriateness of other costs, including travel and credit card charges, and donations. We also questioned the appropriateness of certain costs for which revenue was received.

Use of VESID Funding for Political or Legislative Influencing Purposes

The VESID contract states funds shall not be used for any partisan political activity, or for activities that may influence legislation or the election or defeat of any candidate for public office. Similarly, the cost principles do not allow the costs for any attempt to influence federal or State legislation "by urging members of the general public or any segment thereof to contribute or participate in any mass demonstration, march, rally, fundraising drive, lobbying campaign or letter writing or telephone campaign." However, the cost principles do allow the costs of "providing a technical and factual presentation of information .... to a state legislature, or subdivision, member, or cognizant staff member thereof in response to a documented request..."

As part of the review of non-personal service costs charged to the VESID contract, the audit identified several items that may violate this contract restriction and the cost principles. In March 1998, the ILC rented three minivans for a three-day trip to Albany for ILC staff, Board members and consumers. The ILC charged the VESID contract at least $3,654 for this trip, including $1,850 for lodging, $1,150 for breakfast for 130 persons, $385 for the vehicle rentals, and $269 for restaurant charges. Documentation for the expenses did not include any record of who traveled or stayed in Albany or for whom the meals were provided. For example, the only support for the food and lodging expenses are charges shown on credit card statements. Other expenses were also likely incurred for this trip, but we were not able to identify them without a detailed review of all expenses and supporting documentation.

According to the ILC's Executive Director, the purpose of the trip was "Education Day for Legislators" and the $1,150 breakfast charge was charged to the VESID contract in error. All expenses related to this trip, a minimum of $3,654, appear to violate the contract provision prohibiting "activities that may influence legislation," as well as the cost principles.

Similarly, in May 1998, the ILC rented a bus at a cost of $1,871 for a day trip to Albany for an independent living rally at the Capitol. Although the cost was charged to a general administrative account, not a VESID account, the charge, which is allocated among several government programs including the VESID contract, also appears to violate the contract provision prohibiting "activities that may influence legislation," and the cost principles. The ILC should repay VESID for the costs related to political activity.

#7 **WNYILP RESPONSE:**

We do not agree with the Departments observation that our trips to Albany were for partisan "political activity". The trips to Albany, the capital of New York State, were activities that were in line with our contract goals. According to New York State Office of Vocational and Educational Services for Individuals with Disabilities, Center for Independent Living, Revised Standards Performance Report, and Data Collection Guide:

Effective Community and Systems Advocacy

Activities to affect permanent change to policies, practices and decisions in the public and/or private sector that control resources necessary to enhance integration, inclusion, and independence of people with disabilities as a group.

Activities Leading to Community and Systems Change: May encompass but are not limited to:

- Issue oriented education
- Coalition building
- Alternative solutions framed and presented
- Legal action coordinated
- Protest, demonstration and civil disobedience
- Targeted public relations campaign
- Coordination of group testimony and opinion
- Promulgation of legislative action

Outcomes of Systems Change: May encompass but are not limited to:

- Adoption of a new policy or procedure
- Adoption of legislation, guidelines, regulations
- A new service or program in the community
- Addition or change to information disseminated
- Removal of attitudinal, architectural, programmatic or communication barriers to services and programs
- Change in the distribution of funding or resource allocation
- Increase in empowerment, authority and control by people with disabilities
- Increase in group social, economic, political or spiritual autonomy
- Elimination of segregated, separate, unequal or stigmatizing policies, programs or services

Citizenship Advocacy: Includes efforts to influence positive change to systems that control the resources necessary to participate fully in the conduct of civic responsibilities and opportunities for people with disabilities as a group.

These systems include but are not limited to:

- Voting sites

- Polling sites
- Public meeting locations
- Public committees work groups, boards and task forces
- Political campaigns, rallies, demonstrations, public forums

By making it possible for individuals to go to Albany on March 3 & 4, 1998, they were able to hear from leaders of the legislature, Lawrence Gloeckler, Deputy Commissioner, NYS Education Department, Thomas Roberts, Associate Commissioner, Commission for the Blind and Visually Handicapped, Assemblymember Deborah Glick, Chairperson, Task Force on the Disabled, Senator Catherine Abate, Assemblymember Harvey Weisenberg, Assemblymember Richard Gottfried, Assemblymember Samuel Coleman, David Arocho, Executive Director, New York State Independent Living Council and Maria Dibble, President, Association of Independent Living Centers in New York. Consumers were able to visit their legislator and learn about how the legislative process works. This activity was sponsored by the following organizations: Coalition On Independent Living, the Association of Independent Living Centers in New York, and the New York State Independent Living Council.

**AUDIT:**

Documentation of Travel and Credit Card Expenses

The contract requires that expenses for travel, lodging, and subsistence should be reimbursed at the per diem rate in effect at the time for NYS Management/Confidential employees. The costs must be reasonable, necessary, directly related to program, and sufficiently documented. The documentation should include actual invoices, hotel bills, receipts for meals, and other items. These records demonstrate that expenses are related to ILC business and also serve as justification for accounting of the expenses.

The review determined the ILC did not always maintain adequate documentation to support travel and other credit card expenses. The Executive Director did not complete travel vouchers and in many cases the only support for his travel consisted of credit card statements. In other cases, bills and receipts were attached. As a result, we were not able to determine the appropriateness of the expenses nor that the expenses were charged to the proper accounts. For example, the statement for April 1998 shows an $1,850 charge for the Red Roof Inn in Albany. No receipt or other documentation was attached to show the purpose of the trip and for whom or even how many individuals the expenses were incurred. Without this information we were not able to assess the appropriateness of the credit card charges, or if the travel reimbursement rates were consistent with the rates for NYS Management/Confidential employees.

**WNYILP RESPONSE:**

#8 The Center does agree that for this particular item that the bill from the Red Roof Inn was missing. However, if we were asked to support the cost the Auditor would have been shown the Center's roster of 66 individuals that was sent to the Red Roof Inn (see attached roster). Furthermore, meals for these two days included the receipts of an additional $610, an average cost per person of $9.24 for the trip (see attached receipts). Neither the charge from the hotel nor the meals exceed the VESID per diem.

This organization reimburses its employees for the direct cost of meals and lodging while engaged in long distance travel. It is a policy that serves to benefit both employee and employer. Rarely do employees exceed the State approved per diem. The benefit to them is that there is more money available for travel to attend conferences, etc. At the same time, no employee is prohibited from dining in a reasonably priced restaurant when it is beneficial. The benefit to the employer is that we are not paying someone funds they do not need.

**AUDIT:**

Donations

The contract does not address donations, but the cost principles do not allow the costs of contributions and donations. The review determined the ILC charged the VESID contract $1,640 for "memberships," some of which might more appropriately be called "donations." For example, the Center became a supporting member of two other ILCs (Watertown and Slate Hill) at $25 each, and made a $20 contribution to the Lions Club and $10 to the Buffalo Police Benevolent Association. Although the dollar amounts are immaterial, we question whether one ILC should be a paying member of another ILC at VESID's expense and whether the other contributions are an appropriate use of public funds.

**WNYILP RESPONSE:**

As stated by the department, there is no policy stating that a center cannot be a member of another center. As stated earlier the Center's purpose is to facilitate change and to inform its consumers of issues facing persons with disabilities. The Center is a member of other ILCs in order to stay advised of the issues that the other Centers are facing in New York State. By keeping in touch of what other Centers are doing to assist persons with disabilities, it provides us the ability to strengthen our mission to provide services to persons with disabilities in WNY.

The WNYILP has modified, altered and restructured many of its practices because of becoming aware of how another Center does it better. These small amounts of funds are a cost-effective way to get new programs, policies and issues as compared of a more intensive process of traveling and interviewing various centers to seek the same information. In fact VESID supports Centers learning from Centers, since they are currently offering Center mentoring grants. It is easier to facilitate change in the community if you are seen as part of the solution of the problem and not just the problem.

Our support of the Lions Clubs and Buffalo Police Benevolent Association is the Center's efforts to show that person's with disabilities are concern with what happening in our community.

**AUDIT:**
Revenue for Services Provided

The contract states that the ILC should use any revenue it receives for services funded under this agreement to supplement services, or expand the existing program capacity. If the ILC does not use such funds to supplement services or expand program capacity, then the monetary obligation of the State shall be reduced by an equivalent amount of such funds received by the ILC. The review determined the ILC received revenues for services where the expenses were covered by the VESID contract. Some examples follow.

The ILC received $1,488 from VESID, in addition to the contract amount, for fees for providing services to consumers from VESID's Buffalo District Office. However, the salary for the ILC employee providing the services was paid using funds from the VESID contract. In effect, VESID paid twice for these services.

The ILC received $25,825 in transportation fees. This is in addition to any transportation fees that may have been reported as "contributions." However, none of the fees for transportation were offset against the transportation expenses charged to the VESID, the Office of Mental Health or the OMRDD contracts.

The Center charges the salary for the Interpreter Referral Coordinator position (1.0 FTE at a $24,000 salary) to the VESID contract. The financial statements and accounting records show other interpreter referral expenses of $16,346 and income of $38,060. The excess income of $21,714 was not offset against the VESID contract expenses.

The revenue received by the ILC for services funded by VESID was not used to reduce VESID's obligation, and it does not appear that all the revenue was used to expand or supplement services. This is evidenced by a $23,804 surplus (revenue in excess of expenses) for the year ending September 30, 1998.

Based on this information, we question whether the ILC used the revenue to supplement or expand services.

#9 **WNYILP RESPONSE:**
The Center does not agree that the funds received by the center are VESID funds. The funds allocated to the WNYILP are funds either allocated to the Buffalo location for Independent Living by the NYS law, or funds designated to the WNYILP by the federal IL program.

These funds are for the operations of Independent living Center and can not be used by VESID for any other purpose.

The funds used to support the operations of the Center and the fees charged to VESID are not a duplication of fees, since these funds are directed specifically to the Center. Many agencies that receive Federal appropriations for their base funding are also permitted to charge fee for services. The Center has developed several ways of raising funds from community development to fee for services with many agencies, including VESID.

The Center has a fee for service schedule approved by VESID since 1985 and has been aware that these services are charged to VESID by those individuals that are eligible. This allows the Center to redirect the IL funds to those individuals that are not VESID sponsored.

It must be noted as well that VESID is not the only source of revenue that the Center obtains. The Center has numerous contracts and also needs to support several positions outside of any contracts. These positions are during FY 97/98:

| | |
|---|---|
| Driver for blind Counselor equals | $4,255 |
| Independent Living specialists equals | $12,841 |
| IL Counselor (K. McElligott) equals | $6,142 |
| Part time staff interpreter equals | $1,305 |
| Total equals | $24,543 |

As stated in this audit by the department the center accumulated expenses of $417,828, yet only expensed $396,517. With fees charged to various agencies is how the center was able to cover the difference. The Center also conducts community fund raising which during FY 98 was $82,636. Furthermore, the Board of Directors has established a depreciation fund of which is seldom, if ever fully funded any funds are available at the end of the year, these funds as in the case of the $23,000 are directed to this program.

**AUDIT:**

Salary Expenses

We reviewed payroll and related records for eight employees charged to the VESID contract. In general, we found that reported salary amounts for these employees were supported by payroll records, personnel files, employee timesheets and accrual records maintained by the Accountant. However, none of the allocations of salary expenses to the VESID contract were adequately supported. In addition, we made recommendations related to accrual records and overtime pay.

The Accountant maintains records of employees' vacation, sick and personal time accruals. Although employees need only ask their supervisors or the Accountant for their accrual balances, they are not provided a regular written report or schedule of actual accrual earnings and usage. We recommended that the ILC provide, on a regular basis to each employee, a written report detailing accrual balances, earnings and usage.

#10 **WNYILP RESPONSE:**

To provide this information to our employees is an additional cost to our payroll service, The Center only has 1 (one) individual that handles our accounting demands. In discussions with staff and supervisors it was determined by all that the process that we employ is working and no additional costs need be entertained.

**AUDIT:**

Timesheets and payroll records show that one employee worked a great amount of overtime. The ILC did not pay him for all overtime worked if he charged sick time during the week. For example, in one week he worked 32.5 regular hours, charged 7.5 hours for a sick day, and worked 24 hours overtime. He was paid 47.5 hours at the regular rate and 17.0 hours at the overtime rate. This may be in violation of the Fair Labor Standard Act, and we recommend the ILC confer with its attorney or the Department of Labor concerning this practice.

#11 **WNYILP RESPONSE:**

The Center is very aware of this situation as outlined by the Department. Because of the significance of this particular issue, the management of the Center did contact the Department of Labor when it occurred. The Department of Labor clearly stated to us that an employee is only paid overtime for timed worked. This means that the employee in question can not receive overtime pay when he does not work over 40 hours. The NY State Department of Labor's Minimum Wage Order for Miscellaneous Industries and Occupations, Codes, Rules and Regulations, states in Paragraph 142-2.2: An employer shall pay an employee for overtime at a wage rate of one and one-half times the employee's regular rate. The applicable overtime rate shall be paid for each workweek: "for working time over 40 hours". The key is 'Working time" over 40 hours. The employee in question was paid 47.5 regular hours for the week as he took 7.5 hours of sick time during the week in question. Consequently, he was paid 40 hours of regular pay for working time, 7.5 hours of regular pay for sick time and 17 hours of overtime pay for the number of working hours over the 40 hour standard established by the Department of Labor.

It should be noted that the Center does not attempt to underpay its employees, and took the time to investigate one of the most fundamental principles of Labor Law. If the Auditor would have asked us at the time why we made this decision, we could have provided the manual and shared our conversation with the Department of Labor.

Western NY Independent Living Center, Inc.
Auditor's Notes

1. The audit maintains expenses should be charged or allocated to the programs or cost centers which benefited from the expenses. In this manner, the financial records will reflect the actual costs of the programs or services.

2. VESID was given responsibility to administer the Title VII funds via its contract. As such, the reference to the VESID contract includes all funds administered by VESID and the information provided in the report is accurate. In fact, the ILC's financial statements show rent expense of $36,590 being charged to the VESID contract.

3. The audit maintains the State Comptroller's guidelines must be adhered to and the indirect cost for programs such as MICA, must be borne by the ILC and not be allocated to the State.

4. The Department's contract and generally accepted accounting standards provide guidance for accounting and reporting for revenue and expenses. Recently, VESID has issued to all independent living centers the State Comptroller's Budget Bulletin on Indirect Cost Allocations. In addition, VESID is working on fiscal guidelines documents for independent living centers.

5. The audit maintains the salary amounts allocated to the VESID contract were not consistent with the reported salary and FTE amounts. The audit noted two such errors on the budget report and three errors on the final expenditure report. An example of each is presented in the text of the report.

6. The ILC's response does not address the issue of the $22,999 difference in direct costs between the two reports. As for explaining the $417,848, we excluded the amounts for equipment and purchased services from the amount of direct expenses per the financial statements to make a valid comparison with the final expenditure report. Expenses for equipment and purchased services are not included in direct expenses on the final expenditure report.

7. The contract prohibits the use of funds for activities to influence legislation. This provision may not be consistent with the contract goals related to advocacy. Our recommendation in the draft report was changed to suggest the ILC obtain clarification from VESID concerning the appropriateness of the use of funds for these types of expenses.

8. A roster of individuals is not sufficient documentation to support a hotel expense. In addition, the ILC did not address the fact that the Executive Director did not complete travel vouchers or routinely submit bills and receipts for credit card expenses.

9. The ILC did not address the issue whereby the ILC must use any revenue it receives for services funded under this agreement to supplement services, or expand the existing program

capacity. The ILC needs to provide VESID with documentation to show how the revenue in question was used or reduce the Department's obligation for the current contract (see Recommendation 10).

10. The audit maintains that providing to each employee on a regular basis a written report of accrual balance earnings and usage is a good management practice. It could help ensure the accuracy of the information and the cost to provide such a report should be minimal since the information is already tracked.

11. The finding in the draft report was deleted.

# 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.