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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 9, 2006

Mr. Charles A. Gargano, Chairman
Olympic Regional Development Authority
Olympic Center
2634 Main St.
Lake Placid, NY 12946

Re: Report 2006-F-24

Dear Mr. Gargano:

Pursuant to the State Comptroller's authority as set forth in Article X, Section 5 of the State Constitution and Section 2803 of the Public Authorities Law, we have followed up on the actions taken by officials of the Olympic Regional Development Authority (Authority) to address the findings contained in our audit report, *Internal Controls over Financial Operations for the Olympic Regional Development Authority* (Report 2004-S-78).

Background, Scope and Objective

The Authority was created by statute in 1981 to operate and maintain certain sports facilities in and near Lake Placid, as well as North Creek, New York. The Authority is governed by a ten member Board of Directors including several ex-officio State agency heads, all of whom serve without compensation. The Authority employs approximately 180 full-time workers and up to 1,000 seasonal employees. In 2005-06, State tax dollars from the General Fund financed 27 percent, or \$7.35 million, of the Authority's \$27.3 million operating budget. An economic impact assessment was done by an independent contractor for the Authority and concluded the Authority is a major economic engine in the Adirondack Region. According to the assessment, in 2004-05, the Authority's activities helped create 2,625 full-time jobs and provided \$356.2 million in statewide economic activity. The Authority still requires a significant appropriation from New York State and the Town of North Elba. The State provided approximately \$6.5 million in support during both 2005 and 2006, while the Town of North Elba contributed approximately \$800,000 each year.

Our initial audit report, issued on January 27, 2005, examined the Authority's system of internal controls over its financial operations for the period April 1, 2002 through March 31, 2004. The objectives of our initial audit were to assess the adequacy of the Authority's system of internal controls over its financial operations and to express an opinion on this system based upon the results of the audit. The report identified instances in which the Authority could either improve its system of internal controls or strengthen the adherence to existing policies and procedures. Authority

officials indicated that they would review their operations and would take the necessary actions to address the concerns.

The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of the actions taken, as of September 28, 2006, to address the 16 findings included in our initial report.

Summary Conclusions and Status of Audit Findings

We found that Authority officials have made some progress in correcting the problems we identified; however, additional improvements are needed. Of the 16 audit findings, 5 findings have been addressed, 5 findings have been partially addressed, and 6 findings have not been addressed.

Follow-up Observations

Finding 1

We found the Board met only twice for the years 2000, 2001, and 2003 and not the four times a calendar year as required by its by-laws. The Board met four times in 2002. More frequent meetings than required by its by-laws may be necessary to help the Authority confront the significant deficit it faces each year.

Status - Partially Addressed

Agency Action - Although the President recognizes the need to hold Board meetings four times each year and the Board has expressed its commitment to fulfilling its duties, the Board only met three times in calendar year 2005. As of September 28, 2006, the Board had only met twice (in January and August), but was scheduled to meet two more times to fulfill its by-law requirement in calendar year 2006.

Finding 2

In order to thoroughly review financial and performance data, a reasonable amount of time should be scheduled for each meeting. We reviewed 10 consecutive Board meetings from April 2000 through December 2003 which varied in length from 15 minutes to almost two hours with the average being about one hour. Moreover, in reviewing these minutes, we found no evidence Board members were raising issues or asking questions about the financial and performance data presented. As the Authority is relying on State and Town appropriations each year, the Board needs to consider alternative funding mechanisms to assure the financial viability of the Authority.

Status - Not Addressed

Agency Action - Although Authority officials stated that all business confronting the Authority was fully and properly covered at each Board meeting, we reviewed the Board meeting minutes and found no evidence to support this. The Board increased its meeting times by an average of 15 minutes over four meetings held April 2005 through January 2006; however, during those meetings, new business regarding the newly created Audit and Governance

Committees contributed to the increase in meeting time. The meeting minutes showed no evidence that the Board raised issues or asked questions regarding the financial and performance data presented, nor any evidence of discussions regarding alternative funding for the Authority to ensure its viability.

Finding 3

According to the Governor's Model Governance Principles for Authorities, board members are required to receive appropriate training regarding their legal, fiduciary, and ethical responsibilities as directors of a public authority. We found Authority's Board members do not receive any training regarding these functions.

Status - Partially Addressed

Agency Action - Although the Authority stated it would provide the Board training and incorporate training into Board meetings, specifically by inviting members of the Comptroller's Office, the State Ethics Commission, and the Authority's General Counsel, it did not follow through.

Board meeting minutes indicated that five of ten Board members attended a Board Governance Training Seminar; however, the Authority could not provide documentation that training was received.

Finding 4

The Authority's initial operations budget forecast is prepared in August and presented to the Board of Directors for the fiscal year beginning the next April 1. The Authority's budgets are being approved by the CEO in a timely manner; however the budgets are not being presented to the Board until the annual meeting, which occurs in either May or June. Therefore, the Authority is operating without a Board-approved budget for two to three months during the year.

Status - Not Addressed

Agency Action - Although Authority officials stated they would renew efforts to hold Board meetings well in advance of the April 1 deadline to review and approve the budget, the Board was a month late to approve the budget in 2005 and over four months late to approve the budget for 2006.

Finding 5

We reviewed the Authority's investment policy and found it was in compliance with the State Comptroller's Investment Guidelines. However, we found the policy had not been updated and had not been annually reviewed and approved by the Board of Directors. The last approval was in 1998.

Status - Addressed

Agency Action - The Board reviewed and approved the Authority's investment policy at the April 26, 2005 Board meeting and put in place guidelines to renew and approve a written

investment policy each year. At its August 15, 2006 meeting, the Board approved the investment policy for 2006.

Finding 6

According to the Governor's Model Governance Principles for Authorities, the Board should create three sub committees: Finance, Audit, and Governance. Currently the Authority has only created the Finance committee. In addition, the Authority's Executive Committee (consisting of three members) does not record minutes consistently, therefore the Board does not know exactly what is discussed in these closed sessions and must rely on what information is told to them by the executive members.

Status - Addressed

Agency Action - The Authority created Audit and Governance Committees. The Executive Committee has not held any meetings since 2004, but the Board's policy is to record minutes during the Executive Committee's closed sessions.

Finding 7

Good internal controls require separation of duties among employees. Our review found that Authority's billing and collection procedures are not adequately separated.

Status - Addressed

Agency Action - Authority officials stated that the situation noted during our audit was the result of a temporary staffing shortage, which has since been rectified. We reviewed the current policies and procedures to separate duties among employees in the billing and collection departments, and they appear adequate.

Finding 8

The Authority has good policies and procedures for collecting revenues, particularly for accounts that are past due. However, we identified several instances in which the Authority did not follow its policies and procedures.

Status - Not Addressed

Agency Action - Authority officials state that they use less aggressive methods for collecting past due amounts from corporate sponsors to try and preserve these relationships. However, the Authority has not developed separate policies and procedures for handling past due amounts from its corporate sponsors and continues to allow these accounts to remain outstanding without applying its general collection policies and procedures.

Finding 9

We tested compliance with the Authority's cash and ticketing policies and procedures at Gore Mountain, one of the venues the Authority operates. We identified control weaknesses at Gore over cash and ticketing controls that limit accountability and increase the risk of theft or abuse.

Status - Addressed

Agency Action - Since the initial audit, the Authority developed extensive policies and procedures for cash and ticket handling at Gore Mountain. For instance, the box office is now restricted to authorized personnel only. In addition, recently implemented policies and procedures regarding end of shift cash reconciliations and pre-numbered ticketing have increased staff accountability, while decreasing the risks of theft and abuse. We reviewed several days of transactions and confirmed that these revised policies and procedures are being applied.

Finding 10

We found the Authority does not require pre-numbered purchase orders or receiving documentation. With pre-numbered documents, the Authority would be better able to ensure that all purchases are authorized and properly received.

Status - Not Addressed

Agency Action - Since the initial audit, the Authority has received a vendor proposal for an electronic ordering and receiving module which would allow venues to electronically enter their own purchase orders into the Authority's accounting system. However, no further action has been taken on acquiring and implementing this module, and documents are still not numbered.

Finding 11

During our review of fixed assets, we determined Authority officials were writing off a number of fixed assets before their economic lives had expired. This resulted in unnecessary material losses.

Status - Addressed

Agency Action - We reviewed the Authority's disposal report for calendar year 2006 and found the Authority is following its policy when writing off fixed assets. In 2006, the Authority wrote off nine items totaling almost \$64,000, and had reasonable explanations for these write-offs.

Finding 12

We compared forecasted budgets to actual amounts to determine whether budget accuracy improved from fiscal year 2001-2002 to fiscal year 2002-2003. Budget variances occur when there is a significant difference between the budgeted and actual amount of expenditures. The Authority's policy for budget variances is for venue managers to incorporate previous year's variances into budget calculations in order to reduce or eliminate variances. However, we identified 54

expenditure categories with variances in 2002-2003 that also occurred in the prior year's final budget results.

Status - Not Addressed

Agency Action - Although the Authority stated it would continue to strive to produce budgets with as few variances as possible, we found the Authority has not improved its budget forecasting. We compared the budget to actual figures for fiscal year 2004-2005 and found 77 expenditure categories with variances exceeding 10 percent, including 45 of the 54 categories identified in the initial audit. We also compared the budget to actual figures for fiscal year 2005-2006 and found 73 expenditure categories with variances exceeding 10 percent, including 43 of the 54 categories identified in the initial audit.

Finding 13

We found the Authority's policies and procedures for the security of accounting and information systems need improvement. Employees with access to accounting systems are not required to periodically change passwords or to use passwords with combinations of characters and letters.

Status - Partially Addressed

Agency Action - Although Authority officials stated that employees are now required to change their network and accounting system passwords every 42 days, we found restricted access areas within the accounting system where passwords never expire. The Authority sent a memo in April 2004 reminding employees to change their passwords and specifying parameters for acceptable passwords. However, the Authority does not monitor employees' accounts to ensure that passwords are changed timely or that they are within the parameters.

Finding 14

We found that the Authority's controls over computer equipment are weak. Equipment is tracked through two separate means; a spreadsheet application and inventory log. However, neither device is complete leaving open the possibility equipment is missing or unaccounted for.

Status - Partially Addressed

Agency Action - The Authority has installed an electronic inventory software system to track its computer equipment, has established computer inventory procedures and is in the process of updating records. As of August 25, 2006, the Authority had 90 percent of its hardware inventory and 35 percent of its software inventory entered into the system.

Finding 15

To ensure the availability of its computerized systems it is essential to have a formal back-up and disaster recovery plan. We found the Authority did not have formal disaster recovery plans for their computerized systems, nor are there formal data back-up plans in place.

Status - Partially Addressed

Agency Action - The Authority has developed a back-up and storage plan, which appears adequate. However, as of September 28, 2006, the Authority had not yet developed a disaster recovery plan.

Finding 16

As required by the Public Authorities Law, Article 8 Title 28, the Authority is to annually submit a complete and detailed report setting forth its operations and accomplishments and receipts and expenditures, 90 days after the end of the fiscal year or before June 1 to the Town of North Elba. We found the annual reports from 1999-2000 and 2001-2002 were submitted late to the Town of North Elba. In addition, the 2002-2003 report was not submitted.

Status - Not Addressed

Agency Action - The Authority continues to submit the annual reports late. The 2005-2006 annual report, which should have been submitted by June 1, 2006, was submitted in August.

Major contributors to this report were Joel Biederman, Jessica Turner and W. Sage Hopmeier.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Authority for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

John F. Buyce, CPA
Audit Manager

cc: Lisa Ng, Division of the Budget
Ted Blazer, President/CEO