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OFFICE OF THE STATE COMPTROLLER

November 5, 2009

Nancy L. Zimpher, Ph.D.  
Chancellor  
State University of New York  
State University Plaza  
Albany, New York 12246

Re: Report 2009-F-33

Dear Chancellor Zimpher:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the State University of New York (SUNY) to implement the recommendations contained in our audit report, *Oversight of Campus-Related Foundations* (Report 2006-S-96).

**Background, Scope and Objective**

SUNY's campus-related entities include not-for-profit foundations established to support fundraising and to enhance the educational, research and public service missions of the campuses. The foundations provide integral support to campus programs. Among their primary roles, the foundations receive and manage gifts from alumni and other benefactors and make gifts available to the campuses for approved programs and activities. The foundations are overseen by boards of directors composed primarily of private citizens, senior campus officials, and faculty. SUNY's 28 campus foundations had net assets totaling about \$1.1 billion at the end of the 2007-08 year.

SUNY System Administration provides general oversight of all SUNY operations, including campus foundations. System Administration uses a model contract to govern the relationship between campuses and the foundations.

Traditionally, the Office of the State Comptroller (OSC) audited the SUNY campus foundations when it audited individual campuses under its constitutionally provided audit authority. However, in 1983, SUNY System Administration requested that OSC suspend its audits of campus foundations. Officials explained that they had the means, including audits, to provide appropriate oversight of the foundations. OSC officials agreed with this request and indicated that OSC would periodically audit System Administration's oversight of the foundations.

Our initial audit report, which was issued on September 17, 2008, examined whether SUNY's System Administration provided sufficient oversight of campus-related foundations. Our report concluded that oversight of campus foundations by System Administration was accomplished primarily through the activities of the Office of the University Auditor (OUA) and the Office of the University Comptroller (OUC). Our audit also concluded that the oversight provided by the OUA and the OUC should be improved to help ensure that SUNY complies fully with the 1983 agreement, with particular regard to certain financial-related matters at the foundations. The objective of our follow-up was to assess the extent of implementation as of September 29, 2009 of the eight recommendations included in our initial report.

### **Summary Conclusions and Status of Audit Recommendations**

SUNY officials made significant progress in addressing the matters we identified in the initial report. Of the report's eight recommendations, we determined that six recommendations have been implemented, and two recommendations have been partially implemented.

### **Follow-up Observations**

#### **Recommendation 1**

*Have the OUA consider our audit findings and update its risk assessment to help ensure that all campus foundations are audited within reasonable time frames, considering available audit resources and overall audit priorities.*

Status - Implemented

Agency Action - The OUA conducted a risk assessment of campus-related foundations for fiscal year 2009-10. Further, as a result of that risk assessment, the OUA included audits of certain foundations in its Audit Plan for the 2009-10 year. The objectives of the OUA's audits were to assess compliance with the University's Campus-Related Foundation Guidelines (Guidelines) and to ensure that expenditures were properly documented and appropriate. Since August 9, 2007, the OUA has issued six audits of campus-related foundations.

#### **Recommendation 2**

*Ensure that the OUC executes contracts in a timely manner with the foundations.*

Status - Partially Implemented

Agency Action - As a result of our audit, the SUNY's Vice-Chancellor for Finance and Administration sent SUNY campus presidents a memo informing them of the foundation contract requirements. OUC officials continue to notify campuses when contracts with their related foundation are due to expire. Nine months prior to the end of the contract, OUC sends a notification letter which includes the contract expiration date and the steps required to execute the contract renewal in a timely manner. A copy of the model contract is provided with the notification letter. At the time of our follow-up review, SUNY

campuses had active contracts for 31 of the 32 foundations. Further, efforts were underway to complete a contract renewal for the remaining foundation whose contract had expired.

### **Recommendation 3**

*Ensure that OUC documents its review of foundation financial statements and any follow up steps taken to monitor foundations operations and financial activity.*

Status - Implemented

Agency Action - OUC officials developed and use a checklist to document their reviews of the foundations' financial statements. We reviewed OUC's financial statement reviews for the 32 foundations for 2008 and found that OUC staff completed a checklist for each campus. The OUC further monitors foundation operations and financial activity by reviewing any management letter comments submitted by the public accounting firms that audit the foundations' statements. We reviewed all foundation management letters for 2008 and found that all campuses prepared a corrective action plan for each issue identified in the letters. The action plans were provided to the OUC for inclusion in its formal reviews.

### **Recommendation 4**

*Ensure that all foundations have policies that address all of the areas specified in the guidelines that the Board of Trustees approved for investments.*

Status - Implemented

Agency Action - In 2008, SUNY officials issued the Campus-Related Foundation Management Guidelines and Best Practices Resource Book (Resource Book) to each of the foundations. The Resource Book includes a copy of the Guidelines as well as examples of investment policies. In addition, OUA audits of the foundations assessed compliance with the Guidelines prescribed policies and practices for investment programs. We reviewed OUA's six most recent foundation audits (issued between August 9, 2007 and April 7, 2009) and determined that each of them addressed investment policies. Moreover, two of the audits cited opportunities to improve investment policies.

### **Recommendation 5**

*Require all foundation investment committee members to sign a disclosure statement regarding any conflicts of interest with their responsibilities to the investment committee.*

Status - Partially Implemented

Agency Action - The Guidelines require each campus-related foundation to develop, administer, and communicate written policies and procedures, which include conflict of interest policies for certain key business functions. An example of a conflict of interest policy for

members of an investment committee was included in the Resource Book that was distributed to all foundations. The policy required a committee member to disclose in writing any material relationship or interest the member had with an investment under consideration. The policy did not, however, include a provision requiring a member to sign such a disclosure.

#### **Recommendation 6**

*Obtain and review the investment and disbursement policies of all foundations. Identify best practices that the foundations could include in their policies.*

Status - Implemented

Agency Action - A SUNY task force, created in July 2007, examined and reviewed the policies of SUNY's campus-related foundations and identified best practices. The best practices were compiled in the aforementioned Resource Book which was distributed to foundation officials in 2008. The Resource Book includes policies and best practices pertaining to foundation investment and disbursement functions.

#### **Recommendation 7**

*Advise foundation business offices to maintain adequate documentation supporting the business need for all disbursements.*

Status - Implemented

Agency Action - The OUA provided the foundations with guidance addressing the propriety of expenditures and the adequacy of the corresponding supporting documentation. The guidance emphasized the need to document the business purpose and/or benefit to the campus for each expense.

#### **Recommendation 8**

*Ensure that the foundations cited in the report for combining payment requests and approvals take steps to separate these incompatible duties. Advise all foundations to make sure their internal controls separate these incompatible duties.*

Status - Implemented

Agency Action - Pursuant to guidance from the OUA, the foundations in question had taken steps to separate duties pertaining to the submission of payment requests and their formal approval. The OUA also advised all foundations to clearly document their payment approval processes, including requirements to separate the payment request and approval functions. In addition, this matter was addressed through the best practices included in the Resource Book that was distributed to the foundations.

Major contributors to this report were William Clynes and Jessica Turner.

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 SUNY for the courtesies and cooperation extended to our auditor during this process.

Very truly yours,

Brian E. Mason  
Audit Manager

cc: Mr. Thomas Lukacs, DoB  
Mr. Michael Abbott, SUNY