



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 8, 2016

Nancy L. Zimpher
Chancellor
The State University of New York
State University Plaza
353 Broadway
Albany, NY 12246

Re: PMA Travel Expenses - Final Report

Dear Chancellor Zimpher:

As part of our daily audit of high-risk payments, we examined¹ six vouchers totaling \$735,386 to Pitts Management Associates, Inc. (PMA) by SUNY Downstate Medical Center (Downstate) pursuant to contract TQ00002. The objectives of our examination were to determine whether the expenses claimed for reimbursement by PMA were incurred for business purposes and were reasonable in price.

Under the contract, PMA is required to provide organizational restructuring and consulting services to Downstate. On a monthly basis, Downstate submits two vouchers for payment against this contract; one voucher is for professional fees, and the other voucher is for reimbursement of consultants' travel-related expenses. At this time, we are reporting the results of our examination of consultants' travel-related expenses for the period March through August, 2014.

A. Results of Examination

During our examination, we identified significant issues regarding expenses PMA submitted and Downstate approved for reimbursement. We questioned \$83,156 in expenses for which Downstate staff could not adequately demonstrate the business purpose and/or price reasonableness. Downstate staff conceded \$17,182 in expenses either did not have a clear business purpose or were not reasonable in price. We continue to question the reasonableness of the remaining \$65,974 in expenses, which were never adequately justified by Downstate staff. In addition, we continue to question \$29,012 in related services Downstate paid PMA outside of our examination period.

¹We performed our examination in accordance with the State Comptroller's authority set forth in Article V, Section 1 of the State Constitution, as well as Article II, Section 8, and Article VII, Section 111 of the State Finance Law.

We also found several instances where the President of Downstate did not act in the best interest of the State when dealing with PMA and administering the PMA contract. For example, in December 2013, the President approved a new contract with PMA that eliminated specific reference to criteria pertaining to cost controls over travel expenses incurred by PMA consultants, including the safeguards that precluded PMA employees from being reimbursed for personal or customer entertainment, personal items, and alcoholic beverages. The exclusion of this criteria resulted in a lack of specificity and a decrease in controls when considering the appropriateness of PMA's travel reimbursement requests. The President also attended a six-day birthday celebration in Bermuda for PMA's Chairman/Chief Executive Officer. The President's airfare and a portion of his hotel stay were initially charged to his State-issued travel card. Subsequent to the trip and at his request, the hotel charged the entire stay to President's personal credit card. The President reimbursed the State for the airfare two months after his trip, which was more than one month after our auditors questioned the expense. In addition, the President approved a \$3,867 reimbursement for meals for Long Island College Hospital (LICH) staff for "security reasons" that was initially charged to the PMA contract. However, when asked by our auditors to justify this expense, Downstate removed it from the voucher.

During this time, we found Downstate's Director of Contracts was also serving as the Interim Director of Disbursements. By having both roles, she was responsible for approving both Downstate's contract with, and payments to, PMA. This lack of separation of duties places too much control with one individual.

Taken together, these matters raise serious concerns about the internal controls with regard to monitoring this contract and whether the Downstate President's own actions (e.g. attending a private, personal event for PMA's Chairman/Chief Executive Officer) exacerbated a poor control environment that appeared to exist within the Finance Department.

Moreover, on several occasions we asked Downstate staff to justify the business purpose and price reasonableness of questionable PMA expenses they approved for payment. Instead of providing their rationale for approving the expenses, Downstate staff deferred to PMA for responses and routed those responses to us as the justification. By accepting PMA's responses as appropriate justification for expenses without independent review, Downstate relinquished its responsibility to properly monitor payments to PMA.

As a result, we found Downstate approved PMA expenses that were inconsistent with contract terms and conditions, were extravagant and unreasonable in price, and/or had a questionable business need.

We shared a draft report with SUNY officials and considered their comments (Attachment C) in preparing the final report. The State Comptroller's comments on SUNY's response are included

as Attachment D. SUNY officials acknowledged that improvements are needed in the payment and procurement areas at Downstate. SUNY Central Administration is working with Downstate officials to put the necessary controls in place to ensure procurements are competitively bid and expense reimbursements are reasonable, necessary and adequately documented.

B. Background and Methodology

Downstate originally entered into contract CM00939 with PMA for consulting services for the period December 3, 2012 through September 3, 2013. That contract was later extended for three months through December 3, 2013. At that time, the contract and the extension were subject to approval by the Office of the State Comptroller (OSC). This contract stated that PMA would use reasonable efforts to minimize expenses. It also stated that expenses would be subject to the guidelines outlined in the *PMA Staff and Subcontract Associate Employees Handbook 2012* (PMA Handbook).

The PMA Handbook states a consultant “is expected to pay for travel related and out-of-pocket expenses related to company business and submit receipts to PMA for reimbursement weekly.” The PMA Handbook specifically prohibits personal or customer entertainment, personal items, and alcoholic beverages. The PMA Handbook also limits reimbursement to travel expenses (e.g., airfare, lodging) and out-of-pocket expenses (e.g., postage, copying, office supplies). PMA Management is to administer the policies in the handbook and all employees and subcontractors are expected to abide by the policies.

Prior to Downstate’s extending contract CM00939 to December 2013, Chapter 56 (Part Q) of the Laws of 2013 allowed Downstate to obtain services and commodities related to its restructuring without following certain State procurement requirements, including executing contracts without prior approval from OSC. In December 2013, Downstate replaced contract CM00939 with contract TQ00002, which was not subject to approval by OSC. Collectively, contract CM00939, contract TQ00002, along with both of their amendments are worth \$35.8 million.

Contract TQ00002 eliminated the language limiting expenses as outlined in the PMA Handbook. The new contract states “All Expenses will be reimbursable on the basis of the Contractor’s actual cost with no mark-up.” It also states the “Contractor will use reasonable efforts to minimize expenses by, for instance, employing long-term leases for housing, transportation, and arranging travel in advance.” In addition, the contract defines All Expenses as “...usual and customary travel-related expenses and any other out-of-pocket expenses (e.g., lodging, transportation, meals, mileage, postage, telephone, cable/internet, copying costs, facsimile transmission, etc.).”

To accomplish our examination objective, we analyzed the terms and conditions of contract CM00939 and contract TQ00002; interviewed Downstate officials and PMA executives and

consultants; and reviewed vouchers and other pertinent documentation, including Section 73 of the Public Officers Law, Part Q of Chapter 56 of the Laws of 2013 and the U.S. General Services Administration and New York State travel reimbursement rates.

C. Details of Findings

Downstate's Control Environment

An important part of an organization's internal controls is the control environment, which concerns management's attitudes towards and consciousness of internal controls. It is a product of management's governance; that is, management's philosophy, style, behavior and supportive attitude. Taken together, these elements set the tone for an organization and affect the competence, ethical values, integrity and morale of the people of the organization. The control environment is further affected by the organization's structure and accountability relationships. The control environment has a pervasive influence on the decisions and activities of an organization, and provides the foundation for the overall system of internal controls. If this foundation is not strong and if the control environment is not positive, the overall system of internal control will not be as effective as it should be.

In Report 2010-S-45, entitled Allegations of Procurement Fraud, Waste and Abuse at State University of New York: Downstate Medical Center, issued by this Office on April 9, 2012, our auditors found various weaknesses in the procurement process at Downstate resulting from a systemic breakdown in internal controls and a deficient control environment. The report concluded these weaknesses led to fraudulent and uneconomical vendor selection, inefficient implementation of a multimillion dollar software system, and conflicts of interest between an employee and a vendor. An important aspect of the control environment is its governance and "tone at the top," or the ethical example set by executives and upper management.

Downstate's current President was appointed to that position in August 2012, just four months after Report 2010-S-45 was issued. As such, he was ultimately responsible for ensuring improvement in "a deficient control environment." Part of facilitating this change is setting the appropriate tone at the top at Downstate. His leadership and the ethical example he sets have a significant impact on how the employees of Downstate perform their responsibilities. During the examination, we found several instances where the President of Downstate did not act in the best interest of the State when dealing with PMA. By his actions, he did not establish a strong, clear message regarding the importance of internal controls, thus perpetuating a poor tone at the top.

As stated previously, Downstate originally entered into contract CM00939 with PMA for consulting services in December 2012. That contract stated that PMA would use reasonable efforts to

minimize expenses. It also stated that expenses would be subject to the guidelines outlined in the *PMA Staff and Subcontract Associate Employees Handbook 2012* (PMA Handbook).

In December 2013, the President of Downstate approved contract TQ00002, which replaced contract CM00939. Contract TQ00002 eliminated the language limiting expenses as outlined in the PMA Handbook. As a result, specific criteria establishing the propriety of consultant's travel expenses were eliminated, including the safeguards that precluded PMA employees from being reimbursed for personal or customer entertainment, personal items, and alcoholic beverages.

As stated previously, the President approved \$3,867 for meals for LICH staff. According to the voucher, the President approved the expenses for "security reasons." We question why the President would approve meal expenses for LICH staff under a contract intended for organizational restructuring and consulting services.

The President also attended a birthday party in Bermuda for PMA's Chairman/Chief Executive Officer in July, 2014. The President's airfare and a portion of his hotel stay at the Fairmont Hamilton Princess were initially charged to his State-issued travel card. The remaining portion of the hotel stay was charged to the President's personal credit card. The President indicated the hotel charges were mistakenly placed on his state-issued travel card. He further indicated that subsequent to the trip, and at his request, the hotel charged the entire stay to his personal credit card. However, to initially split the cost of the hotel stay between two credit cards requires a deliberate act by the holder of the credit cards and gives the appearance that the President intended to have the State pay for a portion of this expense.

The President also reimbursed the State for the airfare after our auditors questioned the expense in August 2014. Upon our request in May, 2015 for proof of this reimbursement, we were provided with a cancelled check dated September 17, 2014, indicating the President reimbursed the State two months after his trip and over one month after our auditors questioned the expense.

We are referring this issue to the NYS Joint Commission on Public Ethics for its review.

In addition, when we attempted to verify whether the President charged the appropriate accruals for his time in Bermuda, we found, contrary to SUNY policy, the President did not maintain time and attendance records. He also refused to provide our auditors with evidence to verify he charged the appropriate accruals until directed to do so by SUNY management.

The actions of the President set a poor example for Downstate staff. We question why Downstate officials would approve payments to PMA that were inconsistent with contract terms and conditions, did not ensure the expenses were business-related, and did not ensure the prices were reasonable. In addition, when we asked Downstate officials to justify the business purpose and price reasonableness of numerous expenses, they did not provide their independent rationale

for approving the expenses. Instead, Downstate officials deferred to PMA for responses and routed those responses to us as the rationale to approve the payment without further comment.

Based on the above, we conclude the breakdown in internal controls and the deficient control environment cited in Report 2010-S-45 continued to exist at Downstate at the time of our examination.

Travel Expenses

a. Lodging

We questioned \$17,688 in expenses that PMA consultants incurred for lodging during our examination period. Downstate ultimately deducted \$2,991 of these questioned expenses, resulting in \$14,697 of expenses we continue to question. For example, we found Downstate approved PMA's requests for reimbursement for two executive level consultants, including PMA's Chairman/Chief Executive Officer and Executive Vice President/COO, to stay in Manhattan at The Carlyle Hotel at rates of up to \$1,419 and \$601 per night, respectively. In contrast, a New York State employee staying in Manhattan during this same month would have been limited to a lodging rate of \$267 per night.

We asked Downstate officials to demonstrate the business purpose and price reasonableness of these expenses. Instead of providing their own explanation, Downstate officials provided a response from PMA stating that half of the hotel suite was used for meeting space. However, despite PMA's agreeing to reduce the hotel expense by half, Downstate still approved \$709 for one night of hotel accommodations. This type of extravagance was included on multiple vouchers that Downstate approved and submitted to OSC for payment.

When we asked the Chairman and Chief Executive Officer why he chose to stay at The Carlyle, he stated that it was convenient and he knew everyone there. He further stated that it was expensive, but they gave him a good rate.

We also identified several instances in which Downstate approved PMA's request for reimbursement of hotel charges for an executive level consultant who reserved a hotel room on a monthly basis, including \$14,193 for lodging expenses when the consultant had traveled home for the weekend and did not require overnight accommodations. We asked Downstate officials to demonstrate the business purpose and price reasonableness of these expenses; Downstate officials again routed to us a response received from PMA stating the consultant had a monthly reduced rate at the hotel, which results in less expensive overall costs, similar to a leased apartment. However, Downstate did not demonstrate how this arrangement results in lower overall costs. We compared these lodging expenses to two other available options: (1) apartment

leases and (2) securing the U.S. Government Services Administration (GSA) and New York State travel rates.

PMA billed Downstate for this consultant's monthly hotel accommodations at rates ranging from \$6,972 to \$10,047; however, during the same time period, Downstate reimbursed PMA for monthly apartment leases for other consultants at costs ranging from \$3,031 to \$3,446. Further, the consultant's overall costs for the six months we examined resulted in charges approximately \$3,100 more than allowed by the GSA and New York State travel rates.

This consultant's Marriott bill stated "Your Rewards points/miles earned on your eligible earnings will be credited to your account. Check your Rewards Account Statement for updated activity." Further, when we spoke to the consultant, he acknowledged that he benefitted from this arrangement by earning Marriott Reward points to use at his discretion.

The consultant could not recall the amount of monthly reward points he earned per month. However, according to the hotel's website, rewards program members earn ten reward points, or up to two air miles, per US dollar spent on all qualifying charges. As PMA submitted and Downstate approved between \$6,972 and \$10,047 in monthly hotel accommodations related to this consultant, we estimate this consultant may have earned up to 498,745 reward points during the examination period, and up to 997,490 reward points over the twelve month period he was contracted to work on the Downstate engagement, including an estimate of nearly 283,860 reward points for times he was not staying overnight. We question whether the consultant's decision to incur higher and unnecessary expenses at the Marriott was influenced by these rewards.

b. Meals

We questioned \$13,629 in expenses that PMA consultants incurred for meals during our examination period. Downstate ultimately deducted \$7,347 of these questioned expenses, resulting in \$6,282 of expenses we continue to question.

Downstate staff are employees of the State of New York and, as such, are prohibited by Commission on Public Integrity's Advisory Opinion N0. 08-01 from accepting any gift, including meals, of more than nominal value under circumstances in which it could be reasonably inferred that the gift was intended to influence the performance of the employee's official duties. However, we found that on at least three occasions Downstate officials accepted meals paid for by PMA employees. This includes two dinners the Assistant Vice President/Chief Nursing Officer accepted from PMA's Executive Consultant, and one lunch the Executive Vice President/Chief Operating Officer accepted from PMA's Chairman and Chief Executive Officer. In each instance, the PMA executives submitted and Downstate approved reimbursement for those meals. The average price for each of these meals, per attendee, was \$54, \$70 and \$76, respectively. These

amounts exceed the “nominal value” allowed under the Public Officers Law. When we questioned the business purpose and price reasonableness of these meals, Downstate removed the expenses for its employees and resubmitted the voucher for payment.

The Assistant Vice President/Chief Nursing Officer stated that she did not recall any details related to the \$70 dinner. However, she did acknowledge that PMA paid for the \$76 dinner. The Executive Vice President/Chief Operating Officer acknowledged PMA paid for her \$54 lunch. Subsequent to this acknowledgement, PMA’s Chairman/Chief Executive Officer told us that the Executive Vice President/Chief Operating Officer reimbursed him for her portion of that lunch.

In order to ensure Downstate officials discontinued the practice of accepting meals from PMA, we notified Downstate in December 2014 to include itemized receipts to support all meals requested for reimbursement by PMA, including a list of attendees.

We are referring this issue to the NYS Joint Commission on Public Ethics for its review.

We also found PMA regularly sought reimbursement for, and Downstate approved, expenses for consultant team dinners. When we questioned the business purpose and price reasonableness of these team dinners, Downstate officials provided a document that stated “PMA officials work long hours on-site during the day, and hold team dinners to strategize, plan, and discuss the project.”

We found the amount spent on the team dinners was excessive. For example, according to PMA officials, 13 PMA employees had a team dinner at Docks Oyster Bar and Seafood Grill on May 20, 2014. PMA submitted a non-itemized receipt for that team dinner totaling \$2,039. That dinner had an average expense of over \$157 per person. Based on the allowable GSA rate of \$36 for dinner in New York City, PMA exceeded the GSA total for all attendees by 336 percent or \$1,571.

Based on the excessive nature of the team dinner, we obtained an itemized bill from Docks Oyster Bar and Seafood Grill (see Attachment A). A review of the itemized bill showed that PMA sought reimbursement of \$397 for alcoholic beverages. In addition, the itemized bill stated the dinner was for a party of 17. We question whether PMA told us there were only 13 PMA employees at the dinner to conceal the presence of others, such as Downstate employees, guests or other clients whose meals were inappropriately charged to New York State. When we questioned the business purpose and price reasonableness of this dinner, Downstate reduced the expense by \$400 and resubmitted it for payment.

In addition, when we questioned PMA staff about the team dinners, we were told the purpose was to share ideas between consultants that do not interact on a daily basis. However, there were no meeting agendas, no minutes kept or action items for follow-up. We were also told that consuming alcohol was allowed, but was to be paid for separately by each consultant and not be included on

the main dinner bill. As indicated, alcohol was paid for by PMA and those costs were passed on to New York State.

In addition to the team meeting at Docks Oyster Bar and Seafood Grill, we obtained 9 other itemized restaurant bills that PMA charged to the contract. We found that in all 10 instances PMA submitted and Downstate approved reimbursement for alcohol. Of the \$3,612 that Downstate reimbursed PMA for these meals (not including tip), \$1,024 or 28 percent was for alcohol.

Downstate routinely reimbursed PMA for meals without obtaining itemized bills. By doing so, Downstate officials did not ensure that the prices of the meals were reasonable, and that the charges did not include alcohol and were limited to PMA consultants only. Additional excessive or otherwise inappropriate meal expenses PMA submitted and Downstate approved for reimbursement are detailed in Attachment B.

We also found that PMA submitted, and Downstate approved, a \$3,867 reimbursement for meals for LICH staff from March 2, 2014 through June 19, 2014. This includes, but is not limited to, \$1,798 for purchases at 90 Court Street Bagels, \$709 for purchases at various pizza restaurants and \$425 in purchases described as “groceries/sundries.”

According to the supporting documentation, the President of Downstate approved the expenses for “security reasons” and the business purpose was defined as “LICH Administration.” When we asked Downstate officials to justify the business purpose of the meals and to demonstrate how expenses described as LICH Administration were related to PMA travel expenses, they did not respond. Instead, they resubmitted the reimbursement voucher with the LICH Administration expenses removed, which indicated Downstate lacks the ongoing monitoring necessary to properly administer this contract.

c. Miscellaneous Expenses

We questioned \$18,636 in miscellaneous expenses that PMA incurred during our examination period. Downstate ultimately deducted \$1,308 of these questioned expenses. However, we continue to question \$17,328 in expenses of which \$12,500 was for a management software license and \$4,828 was for other miscellaneous expenses that PMA charged and Downstate approved as travel-related expenses. In addition, Downstate paid PMA at least \$20,000 for similar software services outside of our examination period.

We asked PMA officials how the software license was an allowable travel expense, and they cited the portion of the contract that states “...usual and customary travel-related expenses and any other out-of-pocket expenses (e.g., lodging, transportation, meals, mileage, postage, telephone, cable/internet, copying costs, facsimile transmission, etc.).” According to the PMA officials, the software license falls under the “etc.” portion of that statement. By PMA’s logic, the word “etc.”

would allow them to purchase virtually anything under this contract. A reasonable person would conclude this was not the intent of the contract phrase PMA cited. As a result, the \$32,500 software license costs do not constitute consultants' travel and out-of-pocket expenses and should be recouped.

We also found PMA submitted \$9,607 for legal fees, of which Downstate approved \$9,012 for payment outside of our examination period. We found no supporting documentation and no indication the legal fees were related to consultants' travel and out-of-pocket expenses or the organizational restructuring of Downstate. Therefore, Downstate should recoup this money.

d. Transportation

We questioned \$33,203 in expenses that PMA consultants incurred for transportation during our examination period. Downstate ultimately deducted \$5,536 of these questioned expenses, resulting in \$27,667 of transportation expenses we continue to question.

We found Downstate approved PMA's requests for limousine and car service expenses totaling \$15,840 without sufficient evidence to support the travel was business related, or whether the costs were reasonable. One PMA consultant incurred weekly car service expenses totaling between \$494 and \$896. This included travel to and from restaurants and as much as three and one-half hours of time for the driver to wait outside during the meals at a cost of approximately \$537.

When we questioned these expenses, Downstate staff provided a response from PMA stating the charges were normal and customary. While there is no standard definition for "normal and customary expenses" in the contract, a reasonable person would find these charges at best questionable and not in the best interest of the State. Although Downstate eventually removed \$3,381 in charges from the vouchers, we question how Downstate initially found the charges to be reasonable and subsequently found PMA's response to be acceptable.

Recommendations

- 1) *Review the actions of the President of Downstate Medical Center and take action, as appropriate, to ensure time cards are submitted timely and appropriately certified and all expenses claimed for reimbursement are business related.*
- 2) *Ensure the President of Downstate Medical Center provides appropriate oversight of all operations and sets an ethical standard that fosters a positive control environment.*
- 3) *Ensure Downstate develops a policy for consulting contracts that include reimbursement for meals, transportation, lodging and miscellaneous expenses that conforms to the GSA Rates and/or the New York State Travel Manual.*

- 4) *Ensure Downstate establishes and promotes a control environment that supports internal controls, including appropriate separation of duties and compliance with the Public Officers Law.*
- 5) *SUNY System Administration's Internal Auditor should perform an independent examination of all travel-related expenses PMA charged, and Downstate approved, under contracts CM00939 and TQ00002. As part of this examination, auditors should review the reasonableness of the charges and recover as appropriate.*
- 6) *Recover \$41,512 in miscellaneous expenses including \$32,500 for software license fees and \$9,012 for legal fees.*

We would appreciate your response to this report by September 8, 2016, indicating any actions planned to address the recommendations in this report. We thank the management and staff of SUNY Central Administration and SUNY Downstate Medical Center for the courtesies and cooperation extended to our auditors.

Sincerely,

Bernard J. McHugh
Director of State Expenditures

Enc: Attachment A
Attachment B
Attachment C
Attachment D

cc: Michael Abbott

ATTACHMENT A

DOCKS OYSTER BAR

Check: 0214-2 Table: 80 #Party: 17
19:01

DINING ROOM

HOFBRAU	9.00
GL RIESLING	11.00
Campari	12.50
-ROCKS	0.00
SPLSH SODA	0.00
House Vodka	13.00
& UP	0.00
SPRITE	3.50
HAAKE BECK	6.00
RAD TAP	8.00
COSMOPOLITAN	16.00
Grey Goose	16.00
REGULAR	0.00
& UP	0.00
MARTINI	0.00
DIRTY	0.00
Grey Goose	16.00
REGULAR	0.00
& UP	0.00
Southern Comfort	12.50
-ROCKS	0.00
SPLSH SODA	0.00
GINGER ALE	3.50
GL LAFOND	16.00
Grey Goose	16.00
REGULAR	0.00
& UP	0.00
MARTINI	0.00
DIRTY	0.00
MAKERS MARK	15.50
& UP	0.00
MANHATTAN	0.00
STIRRED	0.00
SWEET	0.00
2 RAW BAR PLATEAU	132.00
2 STEAMED	0.00
2 Memo	0.00
2 SUSHI PLATTER	80.00
2 STEAMED	0.00
2 Memo	0.00
CAESAR SALAD	12.00
ANCHOVIES	0.00
ICEBERG WEDGE	14.00
CAESAR SALAD	12.00
FIELD GREENS	11.00
ICEBERG WEDGE	14.00
CAESAR SALAD	12.00
NO	0.00
CROUTONS	0.00
CAESAR SALAD	12.00
KALE GREEK SALAD	14.00
FIELD GREENS	11.00
Memo	0.00
CRAB SOUP	11.00
CRAB SOUP	11.00
FRIED CALAMARI	14.00
MARINARA	0.00
ICEBERG WEDGE	14.00
SHRIMP COCKTAIL	19.00
ICEBERG WEDGE	14.00
FISH & CHIPS	27.00
DOUBLE CRABCAKE	30.00
ACM	0.00
DOVER SOLE	58.00

ATTACHMENT A

DOUBLE CRABCAKE	30.00
AOM	0.00
SCALLOPS	28.00
PAN SEARED	0.00
MEMO	0.00
10oz FILET MIGNON	49.00
MEDIUM WELL	0.00
BAKED/SOUR	0.00
SWORDFISH	28.00
CREAMED SPINACH	8.00
SWORDFISH	28.00
SWORDFISH	28.00
DOUBLE CRABCAKE	30.00
AOM	0.00
8oz FILET MIGNON	43.00
MEDIUM WELL	0.00
BAKED/SOUR	0.00
Memo	0.00
Memo	0.00
ROCK N ROLL MAKI	18.00
LOBSTER RISOTTO	30.00
SCALLOPS	28.00
Broiled	0.00
BAKED/SOUR	0.00
SKUNA BAY SALMON	29.00
AOM	0.00
MEDIUM	0.00
SWORDFISH	28.00
IPSWICH CLAMS	28.00
FRIES	0.00
1.5 LB LOBSTER	43.50
RICE PILAF	0.00
Grilled	0.00
CREAMED SPINACH	8.00
GL LAFOND	16.00
GL LAFOND	16.00
GL RIESLING	11.00
COSMOPOLITAN	16.00
Grey Goose	16.00
REGULAR	0.00
& UP	0.00
MARTINI	0.00
DIRTY	0.00
DIRTY	0.00
RAD TAP	8.00
GINGER ALE	3.50
SPRITE	3.50
MAKERS MARK	15.50
& UP	0.00
MANHATTAN	0.00
STIRRED	0.00
SWEET	0.00
Grey Goose	16.00
REGULAR	0.00
& UP	0.00
MARTINI	0.00
DIRTY	0.00
Southern Comfort	12.50
~ROCKS	0.00
SPLSH SODA	0.00
House Vodka	13.00
& UP	0.00
GL LAFOND	16.00
Grey Goose	16.00
REGULAR	0.00
& UP	0.00
MARTINI	0.00
DIRTY	0.00
RAD TAP	8.00
HAAKE BECK	6.00
SPRITE	3.50
** FIRE SECOND **	0.00
** FIRE SECOND **	0.00
GL LAFOND	16.00

ATTACHMENT A

GL LAFOND	16.00
GL RIESLING	11.00
TEA	4.00
EARL GREY	0.00
CHOC PUDDING	8.00
NEW YORK CHEESECAKE	8.00
BERRIES ONLY	10.00
FLOURLESS CHOCOLATE CAK	8.00
BERRIES ONLY	10.00
ICE CREAM/SORBET	7.00
ICE CREAM/SORBET	7.00
3 CAPPUCINO	13.50
DECAF CAP	4.50
CAPPUCINO	4.50
Sub Total:	1505.00
Tax:	133.57
21:29 Total:	1638.57
Payments:	
Amt-Tend	Tip/Chg
2038.57	400.00
05/20/2014 21:47	1638.57

	1638.57
	1638.57
Terminal:	T4 FDR

ATTACHMENT B

**Excessive or Otherwise Inappropriate Meal Expenses
PMA Submitted and Downstate Approved for Reimbursement With a Clear Business Purpose**

Date	Meal	Number of Attendees	Total Amount of Bill	Amount Before Tip	Amount per Attendee	GSA Rate	Percentage Per Attendee Above GSA Rate	Total Amount of Alcohol	Percentage Attributed to Alcohol
3/11/2014	Dinner	2	\$89.00	\$73.98	\$44.50	\$36.00	24%	\$22.00	30%
3/12/2014	Dinner	4	266.02	226.02	66.51	36.00	85%	69.00	31%
4/09/2014	Dinner	Unknown	398.77	332.77	Unknown	36.00	Unknown	70.75	21%
4/10/2014	Dinner	3	209.30	169.30	69.77	36.00	94%	39.00	23%
4/23/2014	Dinner	17	859.33	Unknown	50.55	36.00	40%	Unknown	Unknown
5/01/2014	Dinner	2	158.25	118.25	79.13	36.00	120%	42.00	36%
5/14/2014	Dinner	6	454.53	374.53	75.76	36.00	110%	161.50	43%
5/20/2014	Dinner	13*	2,038.57	1,638.57	156.81	36.00	336%	396.50	24%
6/04/2014	Lunch	2	108.37	Unknown	54.19	18.00	201%	Unknown	Unknown
6/19/2014	Lunch	3	200.40	Unknown	66.80	18.00	271%	Unknown	Unknown
6/26/2014	Dinner	Unknown	170.50	140.50	Unknown	36.00	Unknown	53.75	38%
7/16/2014	Dinner	2	393.36	323.36	196.68	36.00	446%	87.00	27%
7/23/2014	Dinner	3	257.03	215.03	85.68	36.00	138%	82.00	38%

**While PMA claimed 13 people attended the dinner, the itemized receipt indicates 17 meals were served. For 17 attendees, the percentage per attendee above the GSA Rate is 233 percent.*



The State University
of New York

Office of the
Chief Financial Officer

State University Plaza
Albany, New York 12246

www.suny.edu

April 21, 2016

Mr. Bernard J. McHugh
Director of State Expenditures
110 State Street
Albany, New York 12236

Dear Mr. McHugh:

Thank you for the opportunity to provide comments on the Draft Report, State University of New York (SUNY) Downstate Medical Center (Downstate) Pitts Management Associates, Inc. (PMA) Travel Expenses (Draft Report). SUNY is committed to ensuring all its campuses have appropriate controls and processes in place and acknowledges that improvements are needed in the procurement and payment areas at Downstate. Efforts are underway to make those changes. Our goal is to help Downstate put the necessary processes and controls in place to ensure goods and services are procured at the lowest available price consistent with quality, level of service, and other needs; procurements are competitively bid (when applicable), authorized, and documented; and expense reimbursement is reasonable, necessary, and adequately documented. To that end, SUNY System Administration is working closely with Downstate to implement the necessary changes.

While the Draft Report raises concerns with the control environment and tone at the top, it is important to put the operational events and financial climate that existed at Downstate in perspective. As reported in OSC's 2013 audit report (2012-S-72), Downstate faced a number of challenges including: fiscal stress, competition for patients, and Medicare and Medicaid changes. Several months prior to the 2013 OSC report (August 2012), Dr. Williams was appointed President of Downstate; preceding his appointment, several members of the leadership team at Downstate Medical Center resigned or retired. Then beginning in early 2013, Downstate was effectuating its plans to close one of its acquired hospitals resulting in multiple court actions, hearings, media, petitions, protests, and government intervention.

Even after settlement of the various court actions in February 2014, Downstate was embroiled in pitched deliberations with community groups regarding the future of health care delivery in the area and the sale of Long Island College Hospital assets. These circumstances triggered again turnover of several key management positions, including the hospital CFO, and positions at LICH, the chief administrative officer and the chief nursing officer. Downstate has been hindered in recruitment of senior leadership and of faculty due in part to the concerns about the financial sustainability of the campus and in part to the distraction of operating the hospital facility at LICH during highly adversarial litigation. The stress imposed on the already challenged Downstate system and on leadership's bandwidth cannot be overstated.

To Learn
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To Serve



While the President is ultimately accountable for all activities at Downstate, several of the contract expenditures in question were decisions made at a level not directly supervised by the President, and at a level where there was turnover and inadequate staffing levels, creating instability in the control environment. Furthermore, the President was focused on implementing an action plan to address the numerous issues being faced by Downstate, which required operational restructuring, work force restructuring, cost restructuring, debt restructuring, and revenue enhancements, while providing quality healthcare to its patients, ensuring medical residents receive the necessary training, and providing quality instruction to its medical healthcare students. With limited resources and many competing priorities, Downstate had to make tough decisions and the senior leadership worked hard to move Downstate forward under these extraordinary circumstances. It is these circumstances combined with resource constraints and staffing flux that negatively impacted the control environment.

While we generally concur with OSC's recommendations, we believe the following corrections and clarifications should be made to the Draft Report:

1. ***PMA Contract Controls*** - The Draft Report claims that Downstate eliminated significant cost controls over travel expenses incurred by PMA consultants by removing language in the contract stating that expenses would be subject to PMA Handbook Guidelines. While the 2013 Part Q contract did not specifically reference the PMA Handbook, the contract did require PMA to use reasonable efforts to minimize travel expenses, limit travel expenses to usual and customary travel related expenses, and limit travel expenses to a specific cost cap in the contract.

With or without a specific reference in the contract, PMA employees were required to adhere to the travel expense requirement specified in the PMA Handbook. The elimination of the reference to the PMA Handbook did not eliminate an important and existing cost control or open the door for PMA employees to be reimbursed for entertainment, personal items, or alcoholic beverages as stated in the Draft Report. Acknowledged internal control deficiencies that SUNY is in the process of fixing, coupled with PMA's violation of its own Handbook, gave rise to the inappropriate charges. Downstate's changes to the contract did not diminish PMA's contractual obligation to incur only reasonable and customary expenses. As such, this statement should be corrected.

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Comment
1.

2. ***PMA Contracts*** – the Draft Report should acknowledge that all PMA contracts, whether approved by OSC or SUNY, provided for a cap on travel related expenditures which is an important cost control.

*
Comment
2.

3. ***Monthly Hotel Charge*** - OSC questioned the use of a monthly hotel stay for a PMA consultant, rather than a less expensive monthly apartment lease. The consultant began working on the project after the apartments for the other consultants were obtained and

it was unclear how long the individual would work on the project. Given the uncertainty, PMA utilized a special rate, which was aligned with the NYS rate, and the individual stayed at the hotel. The circumstances surrounding the decision to use the hotel lodging, rather than an apartment, should be included in the Draft Report.

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Comment
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4. **Travel Reward Points** - The Draft Report references the Reward Points earned by one of the PMA consultants while staying at a hotel on a monthly basis. While the Draft Report cited the estimated number of points earned, it does not come to a conclusion or state a recommendation. This may be due in part to the fact that it is an acceptable practice for New York State employees and other travelers to earn Reward Points for their personal use while in travel status. Given this practice, comments related to the Reward Points should be deleted.

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Comment
4.

Response to Recommendations

OSC Recommendation #1:

Review the actions of the President of Downstate Medical Center and take action, as appropriate, to ensure time cards are submitted timely and appropriately certified and all expenses claimed for reimbursement are business related.

Response:

Agree. SUNY System Administration has reviewed the actions and President Williams has been made aware of the requirements related to time and accrual record keeping and is fulfilling that responsibility. All expenses, including travel reimbursement requests, are being reviewed for compliance with New York State and Downstate guidelines. In addition, Downstate and SUNY System Administration continue to work to improve internal controls and processes.

OSC Recommendation #2:

Ensure the President of Downstate Medical Center provides appropriate oversight of all operations and sets an ethical standard that foster a positive control environment.

Response:

Agree. Both directly and through his senior staff, the President of Downstate is providing oversight of operations.

OSC Recommendation # 3:

Ensure Downstate develops a policy for consulting contracts that include reimbursement for meals, transportation, lodging and miscellaneous expenses that conforms to the U.S. General Services Administration Reimbursement Rates and/or the New York State Travel Manual.

Response:

*See State Comptroller Comments, Attachment D

Partially Agree. As the U.S. General Services Administration Reimbursement Rates and the New York State Travel Manual are generally applicable to employees and not to the procurement of consulting services, Downstate will follow the NYS Finance Law and will require that reimbursement of travel costs incurred by a consultant be reasonable and customary.

*
Comment
5.

OSC Recommendation # 4:

Ensure Downstate establishes and promotes a control environment that supports internal controls, including separation of duties and compliance with the Public Officers Law.

Response:

Agree. Downstate is in the process of effecting positive personnel changes in the procurement divisions. They have hired an Executive Director and Assistant Executive Director for Accounts Payable. Furthermore, Downstate is actively evaluating its operations, policies and procedures, with assistance from SUNY Stony Brook procurement professionals. Thereafter, Downstate and SUNY System Administration will be reengineering Downstate's operating processes to enhance controls and improve outcomes.

OSC Recommendation #5:

SUNY System Administration's Internal Auditor should perform an independent examination of all travel related expenses PMA charges, and Downstate approved, under contracts CM00939 and TQ00002. As part of the examination, auditors should review the reasonableness of the charges and recover as appropriate.

Response:

The Office of the University Auditor's (OUA) will consider conducting an audit of travel related expenses charged to the PMA contract during its annual risk assessment process.

OSC Recommendation #6:

Recover \$41,512 in miscellaneous expenses including \$32,500 for software license fees and \$9,012 for legal fees.

Response:

SUNY agrees with the recommendation and is recovering the funds, as appropriate.

Thank you for the opportunity to respond to the recommendations.

Sincerely,



Eileen McLoughlin
Senior Vice Chancellor for Finance and Chief Financial Officer

Copy: President Williams, Mr. Porter, Ms. Hengsterman, Ms. Fagnoli, Mr. Hippchen, Mr. Abbott, Ms. Poncet/Downstate

State Comptroller Comments on Auditee Response

1. Without cost control language in the contract, Downstate staff have no solid criteria by which to measure the appropriateness of PMA travel expenses. While PMA may still have been obligated to incur only reasonable and customary expenses, PMA did not do so. In addition, PMA's failure to do so was exacerbated by Downstate's approval of those expenses and staff's relinquishing their responsibility to ensure the propriety of the expenses.
2. The cap on the travel is a not-to-exceed amount for all PMA related travel expenses and has no impact on the propriety of individual travel expenses.
3. We disagree. The PMA consultant's rate is not comparable to the NYS rate because a NYS employee is not reimbursed for hotel expenses when they do not stay overnight. We determined NYS reimbursed PMA \$14,673 for hotel expenses during the six month scope period of our audit when the consultant in question was not in NYC on the weekend. Since this consultant stayed at that hotel for an additional seven months, PMA was reimbursed an estimate of nearly \$32,000 for hotel expenses when the consultant was not in NYC and did not need a room.
4. The issue of the consultant earning rewards points would not have been an issue if the related expenses were reasonable and necessary. The reward points this consultant earned have considerable value, which may have influenced his decision to stay at a more expensive hotel and incur unnecessary lodging expenses on weekends instead of leasing an apartment for less money or staying at a less expensive hotel.
5. We continue to make this recommendation. Both the U. S. General Services Administration Reimbursement Rates and the New York State Travel Manual have specific limitations on travel expenses that provide for concrete, reasonable travel expenses. The term "usual and customary" is arbitrary and leaves room for individual interpretation that resulted in one PMA consultant billing Downstate for a hotel room at \$1,419 per night.