



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Use of State Appropriations

New York Wine and Grape Foundation



Report 2015-S-102

June 2016

Executive Summary

Purpose

To determine whether the New York Wine and Grape Foundation (Foundation) has spent State funding in compliance with relevant statutory and contractual requirements, including the need to leverage the appropriations with funds from other sources. The audit covers the period April 2012 through March 2016.

Background

The Foundation is a public authority, located in Canandaigua, which supports New York State's wine and grape industry through research, promotion, and education. It is governed by a Board of Directors, most of whom are involved in the wine and grape industry, and has six employees. The Foundation receives State funding through a contract with the New York State Department of Agriculture and Markets (NYSDAM). Its most recent contract was for \$3.7 million and covered the four years ending March 2016. As of January 2016, the Foundation had received \$3.4 million of this funding.

Key Findings

- The Foundation has appropriately used its State money to fund allowable activities. The contract requires at least 30 percent of the State money be spent on research. Over the term of its contract, the Foundation has spent 34 percent on research, although spending in the first year was just 27 percent.
- The Foundation has also exceeded its contractual commitment to leverage State money. Although it is only required to obtain outside funding equal to what the State provides, it has obtained nearly double that. The State provided \$3.4 million, and the Foundation obtained \$6.5 million from other sources.
- The Foundation has established effective internal controls over most of its financial operations. However, we found that certain revenue payments were being sent directly to an employee's home and not to the Foundation's business office. We discussed this issue with Foundation officials, who immediately rectified the problem.

Recommendation

- No recommendation required. Foundation officials took prompt action during the course of the audit to address the issue we identified.

**State of New York
Office of the State Comptroller**

Division of State Government Accountability

June 16, 2016

Mr. James Trezise
President
New York Wine and Grape Foundation
800 South Main Street, Suite 200
Canandaigua, NY 14424

Dear Mr. Trezise:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively. By so doing, it provides accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Use of State Appropriations*. The audit was performed 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.

This audit's results are a resource for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*

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This report is also available on our website at: www.osc.state.ny.us

Background

The New York Wine and Grape Foundation (Foundation) is a public authority located in Canandaigua, NY. The Foundation supports the wine and grape industry in the State through research, promotion, and education. The Foundation has five full-time employees and one part-time employee, and is governed by Board of Directors composed of people involved in the wine and grape industry plus the Commissioner of the New York State Department of Agriculture and Markets (NYSDAM) and the Commissioner of the New York State Department of Economic Development.

According to Section 10 of Chapter 80 of the Laws of 1985 (Law), the State funding received through NYSDAM may only be used for research into, and the promotion of, the State's wine and grape industry and products. The Foundation must spend between 25 percent and 40 percent of the money on research into viticulture, wine making, and grape processing, and no more than 2½ percent on administrative costs. The balance is to be spent on promotional activities, such as advertising, the publication and distribution of information, and educational activities.

Audit Findings

We found that the Foundation has generally been in compliance with the requirements of both the Law and its contract with the NYSDAM. It has used the State money only for allowable activities and, other than the first year of the contract, the Foundation has kept its spending for administrative and research expenses in line with required percentages. Further, it has obtained outside funding to supplement the State funds, as the contract requires. We also determined that Foundation officials have established effective controls over most of its financial operations, although we found that certain revenue checks were sent directly to an employee's home and not to the Foundation's business office.

Use of State Appropriations

The State provides funding to the Foundation through NYSDAM. The funding is intended to assist the Foundation in promoting the wine and grape industry for the State. NYSDAM and the Foundation entered into a four-year contract in April 2012 for \$3.73 million. As of January 2016, the Foundation had received \$3.4 million under this contract.

NYSDAM advances contract funds to the Foundation quarterly. In turn, the Foundation provides monthly reports to NYSDAM showing how it has spent the money received for the quarter. The report format breaks down the spending into the three categories allowed by the Law (promotion, research, and administration). Within each category, the Foundation reports on the specific activities it has funded, the total cost of that activity, and the amount paid for using State money. The contract with NYSDAM includes a budget, which allocates the State funding between the three categories allowed by the Law. The Foundation uses this budget to determine how much of each expense may be paid for using State money. The contract sets the minimum spending on research at 30 percent, slightly more than the 25 percent minimum specified in the Law.

We reviewed the monthly reports submitted to NYSDAM by the Foundation for the period April 2012 through January 2016. We also reviewed the invoices and other supporting documentation, such as bank statements, for five months randomly selected from the entire period. Based on our review, the Foundation has spent the State's money only on activities allowed by the contract and the Law. We determined that the Foundation spent just 27 percent of the State money on research in the first year of the contract (Fiscal Year 2012-13), which is less than the 30 percent minimum called for in the contract, but more than the 25 percent minimum called for by the Law. Over the life of the entire contract, its spending on research was 34 percent, which is in line with all requirements.

Leveraging State Funding

Originally, the Law required the Foundation to leverage its State money by obtaining outside funding to supplement the State funds. The Law had increasing leverage requirements and eventually required the total cost of work done under the contract with NYSDAM to be at least 400 percent of the amount the State provided. Although that provision of the Law has expired,

the Foundation continues to seek outside funding for its activities. Further, the contract with NYSDAM and the Foundation continues to require that the Foundation obtain other funding, at least equal to what the State provides.

According to Foundation records, between April 2012 and January 2016, the Foundation received \$9.9 million to cover the work done under its contract with NYSDAM. Of that, \$3.4 million (35 percent) was provided by the State and \$6.5 million (65 percent) was provided by other sources. Therefore, the Foundation has exceeded its contractual obligation to leverage the State money.

Internal Controls

According to the New York State Governmental Accountability, Audit and Internal Control Act, the Foundation's management is responsible for maintaining an effective system of internal control over its operations. This includes ensuring that the Foundation's policies and procedures provide a sufficient level of internal control over financial activities.

The Foundation has established effective internal controls over most of its financial operations, especially given its small size. For example, the President and Vice President are often away from the office, traveling to promote the State's wine and grape industry. When they are not available, the bookkeeper drives to a Board member's home to have checks approved. This ensures an appropriate separation of duties, despite the small number of employees.

We did find one issue, however. Our prior review of internal controls over financial operations at the Foundation (Report 2003-Q-5, issued February 18, 2004) reported that revenue checks for one event were sent directly to an employee's home rather than to the Foundation's business offices, and we recommended that the Foundation end that practice. Foundation officials stated that all recommendations from our prior audit had been implemented, including the one regarding checks for this particular event. However, we found that revenue checks for a different event were sent directly to the employee who oversees that event, and not to the Foundation's business offices. After we notified Foundation officials of this weakness, they immediately ended the practice.

Recommendation

No recommendation required. Foundation officials took prompt action during the course of the audit to address the issue we identified.

Audit Scope and Methodology

Our audit determined whether the New York Wine and Grape Foundation has spent State funding in compliance with relevant statutory and contractual requirements, including the need to leverage State appropriations with funds from other sources. The audit covers the period April 2012 through March 2016.

To accomplish our audit objective and assess related internal controls, we reviewed the Foundation's contract with NYSDAM, Foundation policies, and procedures. We interviewed the Foundation's officials and staff as well as staff at NYSDAM. We also reviewed monthly progress reports, and selected a judgmental sample of five reports to trace back to the supporting documentation, which included invoices and bank statements.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

The audit was performed 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.

Reporting Requirements

We discussed the results of our audit and shared a preliminary version of this report with Foundation officials, who agreed with our conclusions. Their comments were considered in preparing this report.

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.