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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

January 28, 1997

Dr. John W. Ryan
Interim Chancellor
State University of New York
State University Plaza
Albany, New York 12246

Re: Report 96-F-33

Dear Dr. Ryan:

Pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we have reviewed the actions taken by officials of the State University of New York (SUNY), the Health Science Center (HSC) at Syracuse and the Governing Board of the clinical practice management plan (Plan) at HSC as of November 15, 1996, to implement the recommendations included in our prior audit report 93-S-54. Our prior report, issued August 16, 1994, addressed whether the Plan at HSC was administered in accordance with SUNY Board of Trustees' Policies.

Background

The Health Science Center at Syracuse has a clinical practice management plan, whereby the doctors on the HSC faculty practice clinical medicine. The Plan consists of 19 separate medical service groups, primarily organized by department, within the College of Medicine. Each group in the Plan elects a representative to serve on the Governing Board. The Governing Board manages the day-to-day activities of the Plan. During 1995, the 19 groups in the Plan generated over \$80 million in revenue.

Article XVI of the SUNY Board of Trustees' Policies regulates the use of funds generated by the clinical practices. The funds generated from the clinical practices may be used to supplement the salaries of the doctors within the groups and pay the operating expenses of the practices. The Trustees' policies stipulate that group operating expenses must meet current Federal IRS guidelines as deductible expenses. In addition, five percent of the gross receipts of the practices and any funds remaining after meeting the expenses of the practices go to benefit the College of Medicine. The Chief Administrative Officer of the HSC administers the funds contributed by the medical service groups and is ultimately responsible for the oversight of Plan activities.

Summary Conclusions

Our prior report contained recommendations designed to improve internal controls over the operations of the Plan. Our recommendations were directed to HSC officials, SUNY System Administration as well as the Governing Board of the Plan. In our follow-up review, we found that each of these groups has made some progress in implementing the recommendations contained in our prior report.

Summary of Status of Prior Audit Recommendations

Of the five prior audit recommendations, HSC, SUNY System Administration and the Governing Board have fully implemented one recommendation, partially implemented three recommendations and have not implemented one recommendation.

Follow-up Observations

Recommendation 1

HSC, in conjunction with SUNY System Administration, should formulate detailed guidelines covering the use of clinical practice plan funds. At a minimum, the guidelines should place appropriate limits/restrictions on entertainment and travel, as well as prohibit the use of funds for charitable contributions and gifts, employee benefits, personal loans and related party transactions.

Status - Partially Implemented

HSC and SUNY Action - In April 1994, the Governing Board of the Plan proposed a set of spending guidelines which were accepted by HSC management as the official guidelines for the groups within the HSC Plan. The HSC guidelines do not include spending limits on travel and entertainment, nor do they prohibit the use of Plan funds for any of the other expense categories contained in the prior audit recommendation. Instead, the guidelines require each medical service group in the plan to establish spending limits appropriate for their group. We interviewed officials from three of the groups mentioned in the prior report and determined that, for the most part, the groups had not established the spending limits required in the guidelines.

However, each of the three groups stated that they have improved controls over expenses and now closely monitor expenses to ensure that only reasonable costs are incurred. To illustrate, the group referred to as Group 1 in the prior audit averaged spending over \$30,000 per year on entertainment expenses during the prior audit period. In 1995, this group spent only \$5,300 on entertainment expenses according to audited financial reports. In addition, this group has set annual spending limits on travel and requires that all expenses be approved by two group officials.

Auditor Comments - HSC officials should request that the medical service groups provide detailed spending limits and other restrictions for each of the categories of expenses mentioned in our

prior report. In not setting specific spending limits, the Governing Board hoped to preserve the autonomy of the individual groups.

Recommendation 2

The Plan's Governing Board should develop expenditure controls to ensure compliance with promulgated guidelines. For example, the Governing Board should provide for separation of expenditure processing duties where feasible and expand the independent review of transactions by HSC's internal auditor.

Status - Fully Implemented

Governing Board Action - The spending guidelines promulgated by the Governing Board include provisions to improve the oversight of group expenditures. For example, all salary advances to group employees and charitable contributions require prior approval by HSC officials or the Dean of the College of Medicine. In addition, all expenditures exceeding \$1,000 require approval by two group members. Also, the HSC internal auditor has expanded his review of group expenditures. The auditor estimates that he now reviews the propriety of 60 to 70 percent of Plan expenses.

Recommendation 3

HSC officials should obtain restitution from appropriate individuals for those expenditures determined to have provided personal gain.

Status - Partially Implemented

HSC Action - HSC officials told us that they pursued restitution from the individual mentioned in the report as having made the majority of the expenditures resulting in personal gain. However, the individual in question objected and filed a formal union grievance. SUNY, HSC and this individual have since reached a non-monetary settlement, agreeable to all parties. The matter is now closed according to HSC officials.

HSC officials also told us that they did not investigate or receive restitution from any other individuals whose expenses might have resulted in personal gain.

Auditor's Comments - HSC should identify the other individuals whose personal expenses were paid by the medical service group, such as tax preparation services, and, if feasible, require these individuals to repay the funds.

Recommendation 4

HSC officials should investigate questionable travel expenditures and, where appropriate, obtain restitution from the individuals involved.

Status - Not Implemented.

HSC Actions - HSC officials did not investigate or obtain restitution for any of the travel expenses mentioned in the prior report.

Auditor's Comment - HSC officials should identify any individuals who may have been reimbursed for inappropriate travel expenses and, if feasible, recover the funds.

Recommendation 5

SUNY System Administration should ensure that similar guidelines and controls are developed at other SUNY locations that have clinical practice plans.

Status - Partially Implemented

SUNY Actions - SUNY System Administration, working with officials from campuses with clinical practice plans, developed comprehensive guidelines entitled Accountability, Accounting, and Reporting Guidelines. These guidelines, adopted by the Board of Trustees in June 1995, established principles for the effective accountability for the revenues and expenditures, compensation practices and financial reporting in order to comply with Board of Trustees' policies relative to clinical practice. Copies of the guidelines were transmitted to the campuses several days prior to the June Board meeting. Some campuses have taken exception to several aspects of the guidelines, including reporting requirements, which resulted in the filing of an improper labor practice. The filing of the improper labor practice, and a subsequent grievance, has delayed full implementation of the guidelines. System Administration representatives are seeking to address and resolve the outstanding issues.

Auditor's Comments - We recommend that SUNY System Administration and the campuses resolve outstanding issues so that the campuses can implement the guidelines as soon as possible.

Major contributors to this report were Marvin Loewy, Martin Chauvin, and Don Hespelt.

We would appreciate your written response to this report within 30 days, indicating any action planned or taken to address the unresolved matters discussed in this report. We wish to thank the management and staff of SUNY for the courtesies and cooperation extended to our auditors during the review.

Very truly yours,

Jerry Barber
Audit Director

cc: Patricia A. Woodworth