

H. CARL McCALL
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE
COMPTROLLER

March 11, 1999

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

Re: Report 97-F-38

Dear Dr. Ryan:

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 reviewed the actions taken by officials of State University of New York at Albany as of January 28, 1999 to implement the recommendations contained in our audit report, *State University of New York at Albany Financial Management Practices* (Report 94-S-85). Our report, which was issued April 25, 1995, examined selected financial management practices including the adequacy of the internal control structure for cash receipts and disbursements, payroll, purchasing, revenue accounting, computer contingency plans, equipment inventory and auxiliary services corporation food purchases.

Background

The State University of New York at Albany (SUNY Albany), established in 1844, is one of four university centers in the State University of New York (SUNY) system and is the oldest of the SUNY colleges and universities. The main campus, opened in 1966, is situated on 382 acres on the west side of the City of Albany. SUNY Albany also maintains a campus in downtown Albany which contains academic facilities, residence halls, offices and a library.

Summary Conclusions

Our prior audit found that SUNY Albany needed to improve controls over changes to the payroll to ensure that payroll checks are not erroneously issued. There was also a need to implement a more effective sick leave monitoring system and to more closely control overtime expenses. We further noted that internal controls over the receipt of merchandise needed to be improved to ensure that only authorized payments were made. In addition, we noted the need to improve separation of duties and password security for the Quick Pay System used to process payment vouchers. We also

found that SUNY Albany could further improve cash controls for remote collection locations, advance accounts, and certain Income Fund Reimbursable (IFR) accounts. The prior audit report also cited that SUNY Albany should strengthen its computer center contingency plan by identifying critical applications and by periodically testing the plan.

In our follow-up review, we found that campus officials have taken steps to ensure that paychecks are not issued in error, that all overtime is necessary and that sick leave is effectively monitored. In addition, officials took steps to ensure that the duties of staff who enter and approve Quick Pay transactions were separated and that Quick Pay passwords were deactivated for those employee's on extended leave. Also, a Financial Procedures Manual was developed and updated to establish the necessary controls over cash receipts. We found that officials still need to ensure that the cash controls and procedures are established and in place at remote locations and that project directors are taking appropriate actions to collect amounts owed to IFR accounts. SUNY Albany officials have strengthened computer contingency plans by identifying critical administrative systems, but have not taken steps to test the execution of the contingency plan. Officials did not implement either our recommendation to periodically review controls and procedures at each remote cash collection site or our recommendation to provide for an independent verification and count of all merchandise delivered to the campus. Proceeds of stop payment orders placed on checks issued from advance accounts have not been deposited into the State's General Fund as we recommended.

Summary of Status of Prior Audit Recommendations

Our prior audit contained 13 recommendations. We found that campus officials have implemented seven recommendations, partially implemented three recommendations and have not implemented three recommendations.

Follow-Up Observations

Recommendation 1

Improve controls over deletions from the payroll so that paychecks are not issued in error.

Status - Implemented

Agency Action - In order to reduce the number of returned checks resulting from the non-acceptance of graduate and teaching assistant appointments, procedures were changed so that, prior to the start of each term, the SUNY Albany Payroll Office prepares a listing of all individuals who are scheduled to receive a paycheck. Department personnel review the listing and confirm to the Payroll Office that the individuals have accepted the position.

Recommendation 2

Improve the sick leave monitoring system to identify patterns of use and implement procedures to curb potential sick leave abuse.

Status - Implemented

Agency Action - SUNY Albany officials told us that they now provide sick leave usage reports to department management semi-annually. These reports are to be used for follow up and identification of patterns of sick leave abuse. In addition, officials stated that a recently acquired computer software package should facilitate monitoring employee sick leave usage. The expected implementation date for the package is July 1999.

Recommendation 3

Ensure that all overtime is necessary.

Status - Implemented

Agency Action - In August 1995, SUNY Albany officials issued a directive to all Deans, Directors and Department Chairs articulating the need for increased oversight. Campus officials have empowered their Deans, Directors, and Department Chairs to ensure that all overtime is necessary. Also, to increase accountability, policies were revised to charge departments for their overtime usage instead of charging pooled funds.

Recommendation 4

Provide for the independent verification and count of all merchandise delivered to the campus.

Status - Not Implemented

Agency Action - SUNY Albany officials stated that they are in compliance with the intent of Office of the State Comptroller (OSC) Bulletin G-54 which allows for the interpretation of the necessary controls. They also responded that the use of procurement cards by State agencies, as authorized by OSC since 1995, does not allow for a central receiving function.

Auditors' Comments - Although central receiving may not be practical for some transactions, whenever possible someone other than the person who makes the purchase request should count and inspect the items upon receipt.

Recommendation 5

Adopt management controls to ensure adequate separation of duties for the Quick Pay Vouchering System.

Status - Implemented

Agency Action - The SUNY Albany staff who enter Quick Pay transactions no longer have the ability to certify the transactions for payment. In addition, the Associate Accountant in the Accounting Department is now authorized to certify Quick Pay transactions, but does not have the ability to enter the transactions.

Recommendation 6

Deactivate Quick Pay passwords for employees who are out on extended leave.

Status - Implemented

Agency Action - SUNY Albany officials told us that now only two individuals have Quick Pay certification authority and neither of these individuals have gone on extended leave since 1995.

Recommendation 7

Develop comprehensive campus-wide written cash control guidelines and procedures.

Status - Implemented

Agency Action - SUNY Albany issued a Financial Procedures Manual in September 1994 which included cash control guidelines and procedures. The Manual was subsequently updated with revised procedures as a result of our audit.

Recommendation 8

Ensure that remote collection locations establish controls over cash receipts in compliance with the Office of the State Comptroller's Rules and Regulations.

Status - Partially Implemented

Agency Action - In September 1994, SUNY Albany developed a Financial Procedures Manual which identified the cash control guidelines at remote collection locations. SUNY Albany officials told us that by issuing campus-wide control guidelines, management has provided adequate guidance and instruction. Officials also provided us with copies of vulnerability assessments that were conducted at all remote sites. Such assessments are made to determine the extent of control weaknesses at each site.

Auditors' Comments - Our review of the vulnerability assessments conducted at the remote sites found that the latest was in 1992. As a result, the assessments may not identify current weaknesses.

Recommendation 9

Ensure that cash controls are adequate at each location which receives cash by periodically reviewing controls and procedures at each location.

Status - Not Implemented

Agency Action - SUNY Albany officials stated in their response to our prior audit report that "The expanded pricing program will provide periodic reviews of cash controls at locations throughout the campus. Annual budgetary reviews and cash deposits will be monitored by the Bursars office." Officials stated that these activities did not occur due to departmental changes, under-staffing, and budget constraints.

Auditors' Comments - Periodic reviews at each location to identify weaknesses and necessary corrective actions for cash controls still need to be performed.

Recommendation 10

Issue dunning letters and discontinue services for IFR accounts unpaid over 30 days.

Status - Partially Implemented

Agency Action - SUNY Albany officials noted that campus management has taken some steps to comply with the recommendation. For example, project managers are responsible for managing their IFR receivables, and in most cases managers use dunning letters and terminate services for lack of payment. In some cases the directors decide that the cost of collection efforts exceeds the potential benefits and, therefore, resources may be expended in areas other than collections. Officials added that the Financial Procedures Manual provides project directors with guidelines for IFR management. In addition, the Accounting Office tracks and ages receivable balances and provides reports to the project directors. SUNY Albany officials advised us that collection efforts are made within the constraints of campus and departmental policies, but additional efforts to collect outstanding balances will be made.

Our review of selected accounts found that, generally, the individuals responsible for IFR accounts are not following the established guidelines. In addition, the Accounting Office does not monitor the activities that each project director performs to collect balances due.

Auditors' Comments - We urge SUNY Albany officials to continue to provide focus and monitoring needed to fully implement our prior audit report recommendation.

Recommendation 11

Advise campus officials to deposit the proceeds of stop payment orders placed on checks issued from the advance accounts into the State General Fund , as required by the State Finance Law.

Status - Not Implemented

Agency Action - SUNY Albany has not implemented this recommendation, and SUNY's Counsel's opinion disagrees with the legal basis for the recommendation.

Auditors' Comments - We note that the checks in question are written from advance accounts which are funded from the General Fund. Therefore, our Counsel's Office continues to believe that the underlying funds for stale checks must be deposited into the General Fund.

Recommendation 12

Improve the current contingency plan to provide for an orderly and timely recovery of the administrative systems if a disaster impacts on computer processing resources. The contingency plan should include the identification of critical applications.

Status - Implemented

Agency Action - SUNY Albany officials stated that they have improved the current contingency plan to provide for an orderly and timely recovery of the administrative systems through the identification of the 24 administrative systems that are currently in use. They further prioritized 13 systems as mission critical and 11 systems as less critical.

Recommendation 13

Fully test the developed contingency plan to ensure that it would allow for the recovery of critical computer applications.

Status - Partially Implemented

Agency Action - SUNY Albany officials acknowledge that the disaster recovery plan should be fully tested. They believe however, that such a test would be very costly and would require the identification of a properly equipped test site. Officials further stated that, in order to ensure the ability to recover in the event of disaster, their recovery plan includes regularly creating backup data storage files for the existing systems. These backup data storage files are continually tested to ensure readability and restoration capability. In addition, the SUNY Albany is in the process of moving all of administrative applications away from the mainframe environment to a client/server architecture. They expect this transition will lessen their level of risk and will be completed over the next three to five years. In the event of a failure of a server, either due to hardware failure or an environmental disaster, a server in a remote location will automatically assume the workload of the failed server. Officials believe that the actions that they have taken to date lessen their degree of risk.

Auditor Comments - We continue to believe that without disaster recover testing for their present computing environment, SUNY Albany officials cannot be adequately assured that the plan is operational and that critical applications can be sufficiently recovered in the event of the loss of existing processing ability.

Major contributors to this report were William J. Nealon, Arthur F. Smith and Richard Gerard.

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

Yours truly,

Jerry Barber
Audit Director

cc: Robert L. King, Division of the Budget
John Murphy, University Auditor
Dr. Karen R. Hitchcock, President SUNY at Albany