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STATE OF NEW YORK
OFFICE OF THE STATE
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September 24, 1998

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

Re: Report 98-F-9

Dear Dr. Ryan:

According 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) as of August 20, 1998, to implement the recommendations included in our prior audit report, Report 95-S-128, entitled "Use of Advance Accounts." Our prior audit report, which was issued on November 4, 1996, examined the extent of SUNY campuses' use of the Quick Pay system to process payment vouchers, the appropriateness of funding levels for advance accounts used throughout SUNY and the compliance of SUNY's advance account payments with guidelines of the Office of the State Comptroller (OSC) and SUNY.

Background

Advance accounts are established from money appropriated to an agency and are intended for small dollar purchases requiring a quick turnaround for payment. Throughout SUNY, advance accounts have traditionally been established to accommodate different types of expenses ranging from merchandise purchases to travel costs to payments for the Education Opportunity Program (EOP).

As of March 31, 1998, SUNY advance accounts had a balance of about \$2 million. More than \$12.5 million in expenditures were processed through these accounts in the 1997-98 fiscal year. OSC and SUNY guidelines limit individual expenditures from advance accounts to \$250. Advance account funds are replenished when the fund custodians submit to OSC a special charge reimbursement voucher to account for fund expenditures. OSC bulletins and accounting procedures require advance accounts to be reduced when advance account activity has decreased or the need for such funds ceases to exist.

The automated OSC Quick Pay program is an alternative to processing small dollar payments through advance accounts. The Quick Pay program was created in 1991 to allow State agencies to increase efficiency in processing high volume, low dollar invoices by permitting on-line entry of vouchers into the OSC Central Accounting System and automatic generation of payment checks from the System. At the time of our prior audit, under Quick Pay, agencies could enter voucher information for purchases up to \$1,000, and for travel expenses up to \$250. Effective March 1, 1996, OSC approved an increase in SUNY Quick Pay limits to \$2,500 for purchases and to \$500 for travel. In addition to Quick Pay, New York State began piloting a Procurement Card program in 1996. This program allows authorized SUNY employees to use credit cards to make purchases of up to \$500. Both Quick Pay and the Procurement Card Program offer State agencies the opportunity to decrease dependence on advance accounts, reduce check writing and account reconciliation activity and to increase availability of payment data to track costs.

Summary Conclusions

In our prior audit, we found that funding levels for advance accounts needed to be reduced and that the majority of advance accounts may not have been necessary primarily due to the availability of the more efficient Quick Pay system. In addition, many SUNY campuses did not review advance account funding levels as required by OSC guidelines and were not fully using Quick Pay. We also found that, with few exceptions, advance account payments generally were made in accordance with OSC and SUNY guidelines.

In our follow-up review, we found SUNY officials had increased the use of Quick Pay and had reduced the number and total dollar value of transactions processed through advance accounts. SUNY has also eliminated its EOP advance accounts. However, additional action is needed to reduce funding levels for advance accounts and some internal control improvement are still needed to address exceptions identified by our prior audit.

Summary of Status of Prior Recommendations

Of the four prior audit recommendations, we found that SUNY officials implemented two recommendations and have partially implemented two recommendations.

Follow-up Observations

Recommendations - To SUNY System Administration

Recommendation 1

Maximize the use of the Quick Pay process for all eligible payments.

Status - Implemented

Agency Action - Our analysis of data obtained from the State Accounting System shows that since our prior audit, SUNY officials have increased their use of Quick Pay and reduced their use of advance accounts. For the fiscal year ended March 31, 1995, SUNY officials processed approximately 270,700 payments totaling \$65.4 million through Quick Pay. For the fiscal year ended March 31, 1998, SUNY officials processed approximately 433,200 payments (a 60 percent increase over fiscal year 1994-95) totaling \$153.8 million (a 135 percent increase over fiscal year 1994-95) through Quick Pay.

Also, the use of advance accounts has declined. For the 1994-95 fiscal year, SUNY officials processed approximately 208,100 transactions totaling \$19.6 million through advance accounts. For the 1997-98 fiscal year, only 113,600 transactions (a 45 percent reduction from fiscal year 1994-95) totaling \$12.5 million (a 36 percent reduction from fiscal year 1994-95) were processed through advance accounts.

Recommendation 2

Review and revise EOP fiscal procedures as recommended by the University Auditor.

Status - Implemented

Agency Action - SUNY officials told us that, as of September 30, 1997, all EOP advance accounts were closed. EOP transactions are now processed through SUNY's Student Aid module.

Recommendation 3

Review all advance account funding levels regularly and return all unnecessary advance amounts to the State Treasury.

Status - Partially Implemented

Agency Action - On December 17, 1996, SUNY's Controller issued a memorandum to all the campuses, recommending that each campus perform a quarterly review of advance account funding levels. In addition, the memo indicated that the University planned to perform its own review of advance account funding levels, and ask campus officials to make appropriate adjustments, if needed. SUNY officials advised us that the University has performed its review and plans to follow up with the appropriate campuses to reduce their advance account funding levels.

Auditors' Comments - We analyzed data obtained from the State Accounting System which indicates that for the fiscal year ended March 31, 1996, the aggregate funding level in SUNY campus advance accounts totaled about \$2,780,000. For the fiscal year ended March 31, 1998, aggregate advance account funding levels had been reduced by \$794,000 to total about \$1,986,000. However, we noted that \$640,000 of this reduction was due to the closing of

the EOP accounts as requested by SUNY System Administration. Only seven campuses and the System Administration central office had reduced funding in other advance accounts. SUNY System Administration officials should follow up with the campuses identified during its review as having excess funding levels and ensure that they reduce the funding levels accordingly. Any excess funds should be returned to the State Treasury.

Recommendation - to SUNY Purchase

Recommendation 4

Establish adequate internal controls over advance accounts.

Status - Partially Implemented

Agency Action - SUNY Purchase officials have developed and implemented written procedures to enhance internal controls over advance accounts. For example, a review of petty cash items is performed by the Director or Assistant Director of Purchasing and Accounts Payable prior to check processing.

Auditors' Comments - In conducting our follow-up review, we examined a small sample of payments made through SUNY Purchase's advance accounts. We found an instance where SUNY Purchase split payments processed through advance accounts to circumvent the \$250 payment limit. SUNY Purchase officials should ensure that adequate internal controls are in place over advance accounts so that split-ordering does not occur.

Major contributors to this report were Karen Bogucki, Ricardo Pimental and Tom Kulzer.

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

Yours truly,

Jerry Barber
Audit Director

cc: Mr. Robert L. King
Mr. Bill Lacy