



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

Division of State Government Accountability

Selected Procurement and Contracting Practices

State University of New York



Report 2014-S-19

July 2015

Executive Summary

Purpose

To determine if the State University of New York's (SUNY) internal controls over procurement ensure goods and services are obtained competitively and at reasonable prices. The audit covers the period April 1, 2012 through September 3, 2014.

Background

The State University of New York (SUNY) consists of 64 colleges located throughout the State and a central administrative office (System Administration) located in Albany. SUNY's non-personal services expenditures are more than \$3 billion annually. System Administration is responsible for establishing policies that are in compliance with applicable State procurement laws, rules, and regulations. The Education Law grants SUNY increased flexibility in obtaining goods and services, both through less stringent purchasing and procurement requirements and through higher dollar thresholds for specific purchasing requirements. System Administration generally allows campuses to operate their procurement functions autonomously, but has issued procurement guidelines that campuses are expected to follow to ensure goods and services are obtained at reasonable, competitive prices.

Key Findings

- SUNY officials have generally established good internal controls over procurement and have effectively communicated these procedures to the campuses. At the same time, our tests at seven campuses and System Administration found areas where further improvements can be made. For example, of 924 procurements we reviewed, 97 in the \$500 to \$250,000 range and totaling more than \$1.1 million lacked required documentation to demonstrate that the price was reasonable.
- In some cases, campuses need to be more compliant, but in other areas – such as the current limits on procurement card transactions – SUNY should consider revising its policies to be more in line with actual business practices, which could allow greater focus on higher-cost and higher-risk transactions.
- We also identified some campus practices that go beyond SUNY's requirements to manage cost and could serve as best practice examples if more widely shared among the campuses.

Key Recommendations

- Remind campuses of the need to comply with important procurement policies, including, but not limited to, documenting that prices are reasonable.
- Update the procurement card policy related to cardholders' transaction limits to be more consistent with campus needs and business practices.
- Enhance efforts to encourage campuses to identify, share, and adopt common best practices to manage costs and ensure efficiency.

Other Related Audits/Reports of Interest

[State University of New York System Administration Office: Selected Employee Travel Expenses \(2012-S-100\)](#)

[Stony Brook University Hospital: Health Information Management Department - Selected Procurement and Human Resources Practices \(2012-S-38\)](#)

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

Division of State Government Accountability

July 6, 2015

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

Dear Dr. Zimpher:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing 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. The 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 of the State University of New York entitled *Selected Procurement and Contracting Practices*. This audit was performed 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.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this draft 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 State University of New York (SUNY) consists of 64 colleges located throughout the State and a central administrative office (System Administration) located in Albany. Its mission is to provide educational services of the highest quality, with the broadest possible access, fully representative of all segments of the population in a complete range of academic, professional, and vocational postsecondary programs. SUNY educates approximately 468,000 students in more than 7,500 degree and certificate programs and nearly 2 million students in workforce and professional development programs. SUNY's non-personal services expenditures are more than \$3 billion annually.

System Administration is the governance arm of the SUNY system, responsible for establishing policies that are in compliance with State laws, rules, and regulations, including the State Finance Law, which guides procurement for all State agencies, and the State Education Law. The Education Law increased SUNY's flexibility in procuring goods and services through less stringent purchasing and procurement requirements and higher dollar thresholds for purchasing requirements than other State entities. System Administration allows campuses to operate their procurement functions autonomously, but has issued guidelines to ensure goods and services are obtained at reasonable prices and, for large-dollar purchases, competitively bid. SUNY's general purchasing requirements include the following:

- All purchases over \$50,000 must be advertised in the New York State Contract Reporter.
- All purchases of \$50,000 or less must have documentation of reasonableness of price.
- Purchases in the \$50,000-\$125,000 range are not competitively bid, but must solicit at least three informal price quotes and have documentation of reasonableness of price, a completed Procurement Checklist to ensure the transaction complies with SUNY policies, and justification of vendor selection.
- Purchases greater than \$125,000 are competitively bid, and require five formal bids or written quotes and a completed Procurement Checklist.
- In addition, for purchases that exceed \$250,000, the Procurement Checklist as well as a Campus Procurement Certification must be submitted in Confluence (a collaborative document repository used to notify System Administration of executed contracts).

Furthermore, according to SUNY's procurement policy, campuses can elect to purchase any commodities or services from an existing Office of General Services (OGS) centralized state contract or solicit vendors for better pricing.

SUNY's Procurement Card Program offers campuses an alternative method of purchasing small-dollar items. According to System Administration's Procurement Card Policy and Guidelines, the Procurement Card Program follows the basic State Procurement Card guidelines as established by OGS, but there may be minor differences due to SUNY's statutory flexibility. SUNY has issued guidance to its campuses on the proper use of the procurement card. Key provisions include the following:

- Supervisory review and approval of all departmental transactions is strongly suggested to ensure they are appropriate and meet procurement requirements (e.g., documentation of reasonableness of cost, vendor selection).
- Each month cardholders must review their activity statement (with attached receipts). Statements must also be reviewed by cardholders' supervisors or accounts payable staff for approval.
- Campuses may set a daily transaction limit as high as \$15,000 for individual cards.
- For purchases up to \$50,000, which don't require competitive bidding, campuses should still take necessary steps to ensure that prices are reasonable.

Audit Findings and Recommendations

SUNY officials have generally established good internal controls over the procurement of goods and services, and have effectively communicated these procedures to the campuses. At the same time, our testing at System Administration and at seven campuses (University at Albany, University at Buffalo, Stony Brook University, State University College at Cortland, Empire State College, State University College at Old Westbury, and State University College at Potsdam) identified areas where further improvements can be made. We found that the campuses don't consistently follow some procurement policies, which increases the risk that goods and services may not always be obtained at reasonable prices. In some cases, campuses need to be more compliant, but in others SUNY should consider revising its policies to be more in line with actual business practices. We also identified some campus practices that go beyond SUNY's requirements to manage cost and could serve as best practice examples if more widely shared among the campuses.

Compliance With Policies Including Reasonableness of Price

SUNY's policy requires staff to document their effort to ensure a reasonable price for all purchases regardless of cost. We reviewed a total of 924 procurement transactions across the eight SUNY locations we sampled and found officials did not always follow this requirement. In total, about 25 percent of these transactions (225) lacked the required documentation to demonstrate steps taken to ensure that the price was reasonable. About 40 percent of these exceptions (97) ranged in value from \$500 to \$250,000 and totaled more than \$1.1 million. Purchases in this range are clearly not insignificant. As a result, it is important that each campus take steps to ensure efforts have been made to obtain competitive pricing.

More than half of these transactions (128) were for less than \$500, which we concluded present a much lower risk not only because of their low dollar amounts, but also because many of these purchases had pre-set prices (such as teaching stipends and referee fees) or represented small purchases from large retail vendors that are widely known to be price competitive. For example, 62 of these 128 transactions were for \$100 or less and together totaled just over \$3,000. Requiring staff to document that the price is reasonable for some of these transactions is likely not cost-effective, especially considering the high volume of transactions. Revising this requirement to eliminate low-value purchases would significantly reduce the incidence of non-compliance. More importantly, it would enable SUNY procurement staff to devote greater attention to higher-cost and higher-risk transactions, which could enhance overall protection of public resources. SUNY officials told us they were considering revising their policy and guidance to campuses.

As detailed below, the exceptions we found occurred in all types of purchases, including use of the procurement card, regular vouchered purchases, and contract transactions.

Vouchered Purchases

Of 400 vouchered transactions reviewed, we identified 58 for \$500 or more and totaling \$231,695 that lacked documentation of steps taken to ensure reasonable pricing. Examples

included \$16,000 paid by Old Westbury for movers to relocate the contents of one building to another. Empire State College also paid \$18,925 for advertising without documenting the price was reasonable. Campus officials stated they simply relied on the knowledge of their marketing person, who indicated the price was fair.

Contracts

Of 131 contracts we reviewed, 12 totaling more than \$893,000 from four locations (Stony Brook University, Cortland, Potsdam, and System Administration) lacked documentation supporting reasonableness of price. Examples included consulting, communications, and fundraising services. We also noted several other areas where certain contracts did not fully comply with SUNY policies.

- One of the 12 contracts lacking pricing information also was not advertised in the New York State Contract Reporter as required. These advertisements are critical to promote healthy competition.
- Another 45 contracts drawn from six campuses were missing a Procurement Checklist, which is a form that SUNY requires to document that all the required steps of a procurement have been completed.
- Of 40 contracts valued at more than \$250,000 issued by the seven campuses, 21 were not formally reported to System Administration as required by the policies.

Overall, the lack of documentation that the price is reasonable, coupled with cases where all required procurement steps may not have been completed, presents an increased risk that individual contract prices may end up higher than necessary.

Procurement Card Purchases

Our review of almost 400 procurement card purchases made by 40 cardholders drawn from among the eight locations also showed instances where procurement guidelines were not followed. For example,

- 27 purchases totaling \$46,627, each in excess of \$500, lacked supporting documentation to show that the price was reasonable.
- At three different locations (University at Albany, Empire State College, and System Administration), there was no evidence that the procurement card statements for five card users we sampled were reviewed by the cardholders' supervisors or the accounts payable unit as required. When such reviews are not conducted, the risk increases that erroneous or even inappropriate transactions will go undetected.
- Three locations (Empire State College, Old Westbury, and System Administration) each used the procurement card to make direct purchases of waste removal services, even though there was an existing OGS contract in place that could have saved the campuses a total of about \$19,000 over the audit period. We brought this issue to management's attention, after which they informed us that the two campuses subsequently arranged for and received refunds of nearly \$4,000.

We also found that 19 cardholders had exceeded the \$15,000 transaction limit that System Administration formally prescribed in its procurement guidelines. System Administration officials determined that these higher amounts were appropriate and confirmed that they had actually authorized higher limits (beyond those prescribed by the procurement guidelines) for many procurement cardholders. Since that is the case, the guidelines should be updated to reflect actual practice.

Identifying and Communicating Best Practices

Our review not only focused on non-compliance with policies, but also found instances where campuses took actions that either exceeded SUNY's procurement requirements or established better ways to manage costs and improve efficiency. These practices demonstrate how the overall effectiveness of procurement operations could be enhanced if SUNY were to more aggressively encourage campuses to identify, share, and adopt common best practices. For example,

- While several locations spent too much on waste removal because they did not use available OGS contracts, four other campuses used innovative practices to obtain better-than-OGS pricing. These four campuses (the Universities at Albany and Buffalo, Stony Brook University, and Cortland) worked together using a Request for Proposal to leverage their combined size. As a result, we estimate that the Stony Brook campus alone saved approximately \$282,000 annually.
- By virtue of the flexibility granted it, SUNY is not required to comply with many of the procurement directives issued to State agencies. This includes Executive Order 18, which is a cost-saving measure that prohibits the purchase of bottled water for use in State facilities and promotes the use of tap water as a preferred alternative. Nonetheless, five of the locations we sampled (Albany, Cortland, Old Westbury, Potsdam, and System Administration) voluntarily complied with this Order. In contrast, three other campuses (Empire State College, Stony Brook, and Buffalo) did not, and spent approximately \$50,000 on water or water filtration systems for the 26-month period ended June 2014.
- One campus, the University at Albany, formally tracks and periodically reviews all non-contract purchases to ensure that OGS contracts are used when appropriate, and that procurement requirements have not been circumvented. This is an example of a good internal control practice to monitor non-contract purchases. We encourage other campuses to consider a similar process.

Recommendations

1. Remind campuses of the need to comply with important procurement policies, including, but not limited to, documenting that prices are reasonable.
2. Update the procurement card policy related to cardholders' transaction limits to be more consistent with campus needs and business practices.
3. Enhance efforts to encourage campuses to identify, share, and adopt common best practices to manage costs and ensure efficiency.

Audit Scope and Methodology

The objective of our audit was to determine whether SUNY's internal controls over procurement are adequate to ensure that goods and services are obtained competitively and at reasonable prices. Our audit period was April 1, 2012 through September 3, 2014.

To accomplish our objective, we reviewed contracts, procurement card statements, payment vouchers, and other supporting documentation at System Administration and seven campuses (University at Albany, University at Buffalo, Stony Brook University, State University College at Cortland, Empire State College, State University College at Old Westbury, and State University College at Potsdam). We judgmentally selected System Administration and campuses based on their size, geographic location, and our assessment of risk factors. At each location we randomly selected 50 vouchered transactions and judgmentally selected up to 20 contracts based on contract requirements, contract dollar amounts, and the number of contracts. At each location we also judgmentally selected 50 procurement card transactions (10 transactions for each of five cardholders) based on the cardholders' monthly limit, actual usage, and transaction amounts and descriptions. We also interviewed SUNY System Administration and campus officials to confirm our understanding of procurement and contracting practices, and made site observations to determine whether internal controls related to our objective were adequate and functioning as intended. The scope of our audit work on internal controls focused on those controls over the contracting and procurement processes and those relating to guidance on procurement card usage.

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 management 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 V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

Reporting Requirements

A draft copy of this report was provided to SUNY officials for their review and formal comment. Their comments were considered in preparing this final report and are attached in their entirety to the end of this report. In general, SUNY agreed with our recommendations.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University of New York shall report to the Governor, State Comptroller, and leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Contributors to 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.

Agency Comments



Office of the
Chief Financial Officer

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June 23, 2015

Mr. John F. Buyce
Audit Director
Office of the State Comptroller
Division of State Government Accountability
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Albany, New York 12236

Dear Mr. Buyce:

In accordance with Section 170 of the Executive Law, we are providing our response to the draft report on Selected Procurement and Contracting Practices, State University of New York (2014-S-19).

We are pleased that the Office of the State Comptroller (OSC) found that the State University of New York (SUNY) established good internal controls over procurement and has effectively communicated procurement procedures to the campuses. Furthermore, we would like to acknowledge that while some payments did not have documentation showing the reasonableness of price, the report does not identify any significant instances of inappropriate or excessive payments. As such, purchases were related to SUNY's official mission and were for legitimate business needs; and contracts and purchases were generally procured competitively, at reasonable prices, and in substantial compliance with State laws, rules, regulations and SUNY policies and procedures.

We appreciate the opportunity to review OSC's report, and to provide additional information regarding the report. As such, we would like to offer the following corrections and clarifications to the report:

- (1) The report indicates that 19 procurement cardholders had transaction limits in excess of the \$15,000 transaction limit set forth by SUNY System Administration. This statement is not accurate as the transaction limit for SUNY cardholders may be as high as \$50,000. In February 2012, OSC issued Procurement and Disbursement Guidelines (G-Bulletin) G-251 advising agencies of increased Quick Pay limits and Procurement Card single transaction limits to assist agencies in preparation for the Statewide Financial System (SFS) implementation. OSC allowed SUNY and other agencies to raise the Procurement Card single transaction limits up to \$50,000, effective February 15, 2012. Although SUNY's procurement card policy was not updated to reflect this change, an email communication was sent to Campus Administrators.

*
Comment
1

To Learn
To Search
To Serve



*See State Comptroller's Comment, page 16

- (2) The report identified a number of transactions where the reasonableness of price was not adequately documented. However, OSC recognized that it may not be cost effective for staff to document the reasonableness of price for many of the transactions such as purchases less than \$500. SUNY has been working with the New York State Procurement Council to see if a threshold amount can be set, at which point, documentation showing the reasonableness of price would not be required.

Our responses to the three recommendations in the report are as follows:

Recommendation #1

Remind campuses of the need to comply with important procurement policies, including, but not limited to, documenting that prices are reasonable.

Response: We agree with this recommendation; however, it should be acknowledged that the campuses did document the reasonableness of price and vendor selection for most purchases. SUNY will work with the campuses to clarify the requirement related to low-dollar purchases and also reinforce the need to document the reasonableness of price and vendor selection. This will be re-emphasized at future procurement training and through the procurement list serve.

Recommendation #2

Update the procurement card policy related to cardholders' transaction limits to be more consistent with campus needs and business practices.

Response: We agree with this recommendation and will update the policy to indicate the allowable higher transaction limit of \$50,000.

Recommendation #3

Enhance efforts to encourage campuses to identify, share, and adopt common best practices to manage costs and ensure efficiency.

Response: SUNY endeavors to share information including best practices with the campuses through several different venues such as regular email communications to business officers and purchasing departments via the list serve, presentations at business officers and purchasing association meetings and conferences, audit communications, and training events. SUNY has also implemented shared services and strategic sourcing initiatives which focus on cost saving and operational efficiencies.

Thank you for the work done by your audit team, which will further improve SUNY's procurement process. In closing, SUNY is committed to procuring goods and services for official campus business at the lowest available price consistent with quality, service, and other needs.

Sincerely,



Eileen McLoughlin
Vice Chancellor for Finance and Chief Financial Officer

Copy: Mr. Abbott, Mr. Barnes/OSC, Ms. Dupuis, Ms. Hengsterman, Mr. Hippchen, Mr. Jewett,
Mr. McGrath, Mr. Porter

State Comptroller's Comment

1. Our report states that SUNY's practice was inconsistent with its procurement card policy and that System Administration officials had authorized the higher limits. Therefore, we recommended that the policy be updated to conform to the actual practice and SUNY agreed.