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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 8, 2004

Mr. Robert L. King
Chancellor
State University of New York
State University Plaza
Albany, NY 12246

Re: Report 2004-F-28

Dear Mr. King:

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 followed up on the actions taken by the State University of New York (SUNY) Maritime College's Faculty Student Association (FSA) to implement the recommendations contained in our audit report, *Selected Financial Management Practices* (Report 2001-S-25).

Background, Scope and Objective

The SUNY Maritime College Faculty Student Association (FSA) is a campus-based, not-for-profit corporation that was formed to operate, manage and promote educationally related services for the benefit of the campus community. Among its responsibilities, the FSA provides a College bookstore and oversees the contract for campus food service. The FSA's responsibilities and other terms of agreement between the College and the FSA are set forth in a contract. According to the FSA's Financial Report for the fiscal year ended June 30, 2003, revenue from operations totaled about \$2.95 million, and net assets increased from the previous year by about \$450,000 to over \$1.37 million.

Our initial audit report, which was issued on December 5, 2002, examined controls over selected financial management practices at the FSA to determine whether the officials had complied with applicable laws and regulations, and SUNY policies and procedures. Our report identified a number of internal control weaknesses. In particular, certain management oversight responsibilities of the FSA Board of Directors, the College President and SUNY System Administration had not been met with respect to the FSA. We concluded that, because of these and other weaknesses, the effectiveness of the FSA's internal control environment was diminished. Also, FSA internal control procedures and practices were inadequate in several areas. The objective of our follow-up, which

was conducted in accordance with Generally Accepted Government Auditing Standards, was to assess the extent of implementation as of June 15, 2004 of the 24 recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that the FSA officials have made significant progress in correcting the problems we identified in our audit. Of the twenty-four prior audit recommendations six were deleted from the final audit report because they were determined not applicable based on information provided by the agency in response to the draft report. Of the remaining eighteen prior audit recommendations, twelve recommendations were implemented, two recommendations were partially implemented, two recommendations were not implemented, and two recommendations were not applicable.

Follow-up Observations

Recommendation 1

Require the FSA Board to meet frequently to exercise its overall management responsibility and to document the results of such meetings.

Status - Implemented

Agency Action - At the time of our prior audit, we found that the FSA's Board of Directors had met only four times in a 31 month period. The FSA's Board of Directors now meets more frequently. We found that the FSA's Board of Director's had met 17 times in the 19 months from September 2002 through March 2004. We also reviewed the minutes of four FSA Board meetings (03/29/04, 09/22/03, 02/25/03 and 09/09/02) and found that the Board discussed FSA business matters and approved FSA contracts and FSA budgets, etc. Most of the Board members were at the meetings and all the meetings were documented.

Recommendation 2

Require the FSA to comply with the terms of its contract with the College and its by-laws by:

- *Obtaining the College President's and the FSA President's written approval for FSA contracts;*
- *Preparing timely FSA operating budgets that are adopted by the FSA Board of Directors and are subsequently submitted to the College President and to SUNY System Administration; and*
- *Requiring the FSA Treasurer to provide written approval for FSA disbursements or obtain Board authorization for other designated officials to perform this function.*

Status - Implemented

Agency Action - SUNY Maritime developed a “Presidential Approval Form” for FSA contracts where both the College President and the FSA President sign each contract. We tested three newly awarded contracts and found that the Presidents of the FSA and the College had approved all three.

The 2003-04 budget was timely prepared, adopted by the FSA Board of Directors and was subsequently submitted to the College President and SUNY System Administration.

FSA of Maritime College adopted a standardized form to document the written approval from the FSA Treasurer. We tested eleven disbursements and found that they were all approved by the FSA Treasurer.

Recommendation 3

Develop and implement comprehensive policies and procedures for the bidding and awarding of contracts to provide for obtaining quality goods and services at the best available prices.

Status - Partially Implemented

Agency Action - The FSA Board adopted the New York State Procurement Council’s procurement guidelines for the bidding and awarding of contracts to provide for obtaining quality goods and services at the best available prices. A copy was handed out to all involved parties and was kept in the FSA procedures binder for reference. However, the FSA did not adhere to the guidelines for one of the three contracts we tested. FSA officials were unable to demonstrate that the coin-operated laundry contract was properly bid before awarding the contract.

Recommendation 4

Require that the FSA only enters into contracts that are consistent with its mission.

Status - Implemented

Agency Action - The FSA provided us a list of 11 contracts. We found that all 11 contracts were consistent with the mission of the FSA.

Recommendation 5

Require that contract amendments and departures from established contract bidding and award policies and procedures are supported with adequate written justifications and explanations.

Status - Partially Implemented

Agency Action - Our test of three recently awarded contracts found that the FSA was unable to demonstrate that the coin-operated laundry contract was properly procured.

Recommendations 6 through 9

Recommendations Number 6 through 9 were deleted from the final report and therefore are no longer applicable.

Recommendation 10

Review the questionable expenditures we reported and make a determination as to their financial appropriateness and relevance to the mission of the FSA. Recover FSA funds as appropriate.

Status - Not Implemented

Agency Action - Although SUNY Maritime's 90-day response to the original audit report stated that the recommendation was fully implemented, officials were unable to demonstrate that the recommended actions were in fact implemented.

Recommendation 11

Follow up to determine the appropriate disbursement of \$68,522 to support the President's Capital Campaign.

Status - Not Implemented

Agency Action - This review was not performed. In response to the draft audit report, SUNY Administration officials stated that it would not be cost effective for them to review this matter. Maritime College officials also state that controls have been instituted to prevent any further transfer of FSA funds to the Maritime College Foundation.

Recommendation 12

Require that financial statements are prepared with full disclosure for the student health insurance revenues/expenses and profit and with adequate supporting records for developing activity expenses; FSA land, building and equipment assets; and merchandise inventory write-off expense.

Status - Implemented

Agency Action - Our review of the fiscal year end 2002 and 2003 financial statements found that they were prepared with adequate disclosures and included other necessary items.

Recommendation 13

Establish a reserve for the replacement of State-owned equipment and do not record State-owned equipment as an asset on the FSA accounting records.

Status - Implemented

Agency Action - The FSA removed the undepreciated balance of State-owned equipment from their records and established a fund for the replacement of State-owned equipment at a minimum of 70%, but not more than 100%, of the applicable net asset balance which equals the accumulated depreciation of State-owned equipment. As of June 30, 2003 and 2002, the FSA's temporarily restricted net asset balance equals 100% of the applicable amount.

Recommendation 14

Require that the FSA maintains a sufficient level of current assets to liabilities as determined by its contract.

Status - Implemented

Agency Action - The FSA Board implemented this recommendation. Based on current assets and liabilities information for fiscal years ended June 30, 2002 and June 30, 2003, the working capital ratios are 5.39 and 5.61 respectively.

Recommendation 15

Write checks only to named payees.

Status - Implemented

Agency Action - FSA officials stated that they have implemented this recommendation. Our review of a sample of 60 cancelled checks and their endorsements confirmed that this recommendation was implemented.

Recommendation 16

Require adequate supporting documentation for all FSA expenditures.

Status - Implemented

Agency Action - The FSA has implemented this recommendation. Our test of a sample of 11 expenditures disclosed that adequate documentation was on hand to support the disbursements.

Recommendation 17

Establish that bookstore loans must be duly authorized, substantiated with formal repayment terms and conditions and be consistent with FSA objectives.

Status - Not Applicable

Agency Action - The FSA no longer operates the bookstore. This is operated by a contractor and the contractor does not provide loans.

Recommendation 18

Use checks to issue refunds to clubs and students.

Status - Not Applicable

Agency Action - This recommendation related to the past practice of the FSA Bookstore granting of loans to students. The FSA no longer operates the bookstore.

Recommendations 19 and 20

Recommendations Number 19 and 20 were deleted from the final report and therefore are no longer applicable.

Recommendation 21

Enforce procedures to ensure that vending revenues collected are witnessed and reported accurately.

Status - Implemented

Agency Action - FSA officials implemented an alternative procedure for monitoring vending machine revenues. It involves monitoring of monthly recipients against baseline data. They believe that this method provides reasonable assurance that vending machine revenues reported correctly.

Recommendation 22

Require that the food service vendor returns unneeded equipment to the College for disposal plans.

Status - Implemented

Agency Action - The FSA conducted an annual inventory and items from prior inventories were accounted for in this process. One equipment item was traded in on a new piece of equipment.

Recommendation 23

Identify all who are receiving cable television service and bill them in a timely manner.

Status - Implemented

Agency Action - All residents of the college who requested cable television are billed on a quarterly basis. Revenues are collected and deposited into the FSA cable income account.

Recommendation 24

SUNY System Administration should refer this matter to the New York State Ethics Commission as a possible ethics violation.

Status - Implemented

Agency Action - The possible ethics violation was referred to the State Ethics Commission on March 4, 2002.

Major contributors to this report were Anthony Carbonelli and Ken Haque.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the College and the FSA for the courtesies and cooperation extended to our auditor during this process.

Very truly yours,

Steven E. Sossei
Audit Director

cc. Dr. Kimberly Cline, Chief Operating Officer
Joseph Schaefer, Chief Business Officer
Robert Barnes, Division of Budget