

ALAN G. HEVESI
COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 19, 2006

Mr. Neal Lane
Chairman
Aging Research Inc.
P.O. Box 2047
Empire State Plaza
Albany, NY 12220-0047

Re: Selected Financial Practices of Aging
Research Inc.
Report 2006-S-5

Dear Mr. Lane:

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 audited the activities of Aging Research Inc. (Corporation). Our audit covered the period of January 1, 2000, through March 20, 2006.

A. Background

The Corporation was created in 1985 to provide funding for non-profit or governmental entities, enabling them to study and research issues affecting the elderly.

The Corporation was dormant from its inception until 1995, when the Director of the New York State Office for the Aging (Agency), who also served as the Corporation President, decided to emphasize public-private partnerships. Accordingly, the Corporation began securing funds from private sources for specific projects, such as a study of osteoporosis that included bone density testing and an Older Driver Family Assistance Project that sought to educate people on how to address unsafe situations involving older drivers. In the past five years, the Corporation has become relatively inactive, participating in minor initiatives that expended only residual funds from earlier grants. Its total assets on December 31, 2005, were \$30,639.

The Corporation maintains it is closely affiliated with the Agency. Its three-member Board of Directors (Board) consists of the Agency's Director, Deputy Director, and the Executive Deputy Director. Corporate officers are also employees of the Agency; the Agency Director also serves as Corporation President, while the Corporation's Secretary/Treasurer is the Agency's Assistant Director of Finance and Administration.

B. Audit Scope, Objective, and Methodology

We audited the activities of the Corporation during the period of January 1, 2000, through March 20, 2006. The objective of our performance audit was to answer the following question:

Is the Corporation being operated as a going concern?

To accomplish our objective, we met with Corporation/Agency officials. For each of the projects the Corporation has undertaken, we reviewed the files to determine whether the project had been completed and to assess the level of Board involvement in decisions concerning the project. We also looked for appropriate documentation of disbursements and revenues, and traced them to the accompanying bank statements, and reviewed information that had been released in the form of financial statements during the past six years to determine operating trends. We also analyzed a listing of all private contributions made to both the Agency and the Corporation, and identified and reviewed the laws for dissolving a not-for-profit corporation.

We conducted our performance audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess Corporation operations within our audit scope. Further, these standards require that we understand the Corporation's internal control structure and compliance with those laws, rules, and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe our audit provides a reasonable basis for our findings, conclusions, and recommendations.

In addition to being the state Auditor, the Comptroller performs certain other duties as the chief fiscal officer of New York State that have been mandated by statute and the State Constitution. The Division of State Services is responsible for several of these, including operation of the State's accounting system; preparation of the State's financial statements; and the approval of State contracts, refunds, and other payments. In addition, the Comptroller appoints members, some of whom have minority voting rights to certain boards, commissions, and public authorities. These duties may be considered management functions of evaluating organizational independence under generally accepted government auditing standards. In our opinion, they do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

We conclude that the Corporation is not being operated as a going concern. Under the going concern concept, an entity continues to operate indefinitely and is able to raise enough resources to stay operational. In general, the Corporation has not undertaken substantial activity for several years; at this time, it merely funds minor initiatives with money that remains from an earlier grant. These initiatives are developed by the Agency staff; the Corporation employs no staff, relying solely on Agency personnel to carry out administrative operations.

Our review of financial information released by the Corporation during the past five years shows a consistently-negative operating trend. The data revealed an average annual operating deficit of about \$11,975, with interest on existing accounts the only source of income. Despite this negative trend, there is no evidence the Board has demonstrated any planning for continued operations or the implementation of specific projects in the future. Nor is there a plan for raising additional funds.

The Agency is authorized to accept private donations to a fiduciary fund. According to Corporation officials, Section 212 of the Elder Law confirms that the Agency Director can accept contributions from private entities on behalf of the State. The officials noted that the Corporation has provided an alternative means of receiving private funds from grantors that preferred not to donate directly to the State. However, a comparison of contributions to the Agency's fiduciary fund with those made to the Corporation, shows that 85 percent of the total amount of private funding received had been donated to the Agency through the fiduciary fund; just 15 percent had been contributed to the Corporation.

Therefore, we conclude that the continuation of the Corporation is unnecessary. The Agency has the ability to continue to solicit private donations that support programs and research for the elderly without Agency staff incurring the added administrative burden of maintaining the Corporation.

Article 10 of the Not-for-Profit Corporation Law, which addresses the requirements for dissolving a not-for-profit corporation, requires the Board to develop a plan for distributing any remaining assets to entities with a similar purpose and a not-for-profit status. Through its distribution plan, the Board could ensure the remaining assets of the Corporation go directly to organizations studying and researching issues affecting the elderly including the Agency's fiduciary fund. In addition, this law requires the Corporation to obtain a court approved Certificate of Dissolution and file the certificate with the Department of State.

Recommendation

Dissolve the Corporation and distribute the remaining assets as required by Article 10 of the Not-for-Profit Corporation law.

We provided a draft copy of this report to Corporate and Agency officials for their review and comment. These officials notified us that they were not planning to respond to the draft audit report as they agreed with our conclusions and recommendation.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Agency shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendation contained herein, and where the recommendation was not implemented, the reasons therefor.

Major contributors to this report include Todd Seeberger, Brian Krawiecki, Theresa Nellis and Marticia Madory. We wish to thank Corporation and Agency management and staff for the courtesies and cooperation extended to our auditors during the audit.

Very truly yours,

A handwritten signature in black ink that reads "Richard K. Sturm". The signature is written in a cursive style with a large initial 'R'.

Richard K. Sturm
Audit Manager

cc: Lisa Ng, Division of the Budget