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STATE OF NEW YORK  
OFFICE OF THE STATE  
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July 21, 1999

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

Re: Report 97-F-6

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 the State University of New York (SUNY) as of June 29, 1999, to implement the recommendations contained in our audit report, *State University of New York: Agency Accounts* (Report 94-S-66). Our report, which was issued on December 29, 1995, examined the internal controls maintained at selected campuses to ensure that proper funds were deposited into agency accounts and that disbursements were reasonable and consistent with the purpose of the accounts.

**Background**

SUNY has 29 State-operated universities and colleges and 5 statutory colleges which are operated under contracts with a private university. SUNY campuses use agency accounts to receive, hold and disburse funds on behalf of students, faculty, staff members, or appropriately recognized organizations. The Research Foundation of SUNY, auxiliary service corporations, and campus-related foundations are the University-related organizations authorized to administer agency accounts. Agency accounts cannot be used to receive or disburse State funds, and their activities are not subject to State legislative or budgetary control or the State Comptroller's pre-audit review and approval process. As of February 1994, there were over 1,500 agency accounts with annual receipts totaling \$81 million at the 29 State-operated campuses. More recent data is not available because campuses do not report agency account activity to SUNY System Administration.

## **Summary Conclusions**

In our prior audit, we identified account management deficiencies at three of the seven campuses we visited. At the SUNY Health Science Center at Brooklyn (Brooklyn HSC) and at SUNY Stony Brook (Stony Brook), we found that State revenues and certain other designated funds were inappropriately deposited into agency accounts. Further, we found that disbursements at both of these two campuses and at SUNY Buffalo (Buffalo) were sometimes undocumented or inconsistent with the purposes for which the accounts were established.

In our follow up review, we determined that all three campuses have taken steps to strengthen internal controls to ensure that established agency account procedures are being followed.

## **Summary of Status of Prior Audit Recommendations**

Of the nine prior audit recommendations, SUNY officials have implemented seven recommendations, partially implemented one recommendation, and have not implemented one recommendation.

## **Follow Up Observations**

### **Recommendation 1**

*Enforce all established policies, guidelines and agreements to ensure that State revenues, research funds and monies for the benefit of the Brooklyn HSC School of Medicine are administered appropriately.*

Status - Implemented

Agency Action - On March 27, 1996, Brooklyn HSC's President sent a memorandum to all Deans and Department Chairs, advising them that Brooklyn HSC had been cited in external audits for maintaining financial accounts and entities that did not conform to State law and SUNY policy. The Deans and Department Chairs were instructed to provide a listing of all accounts controlled by the department or division of the department or maintained for departmental or divisional purposes as of April 1, 1996. The memo further stated that a team would work with them to close any accounts that were deemed inappropriate and move the activity to an appropriate mechanism. According to a Brooklyn HSC official, all departments had complied with this directive as of April 19, 1996. The official also indicated that follow up audits to verify compliance with established policies and procedures are planned for fiscal year July 1, 1999 through June 30, 2000.

**Recommendation 2**

*Implement adequate controls over the Brooklyn HSC Foundation accounts to ensure that:*

- *all disbursements from agency and restricted accounts comply with the purpose for which those accounts were established;*
- *adequate supporting documentation accompany all disbursement requests; and*
- *functions related to receipt and disbursement are adequately separated.*

Status - Implemented

Agency Action - Brooklyn HSC officials indicated that compliance with this audit recommendation has been achieved by closing out the Brooklyn Medical, Surgical, Orthopedic and Otolaryngologic Foundation accounts and vesting responsibility for receipt and disbursement of their funds with the Research Foundation, the Campus Foundation and Income Fund Reimbursable accounts. Officials noted that each of these entities and/or mechanisms is subject to periodic review of internal controls and an audit by an appropriate oversight agency or designee. For example, SUNY's University Auditor conducted a review of the Brooklyn HSC Campus Foundation as of May 31, 1998. The review objective was to analyze revenue sources and functional expenditures in conjunction with applicable policies, procedures and guidelines. The report concluded that Brooklyn HSC Campus Foundation operations were generally in compliance with the SUNY Guidelines for Campus-Related Foundations.

**Recommendation 3**

*Identify and recover Plan income, State revenues, and research monies inappropriately deposited into Brooklyn HSC Foundation accounts.*

Status - Implemented

Agency Action - Brooklyn HSC officials have provided us with documentation showing that they have transferred approximately \$600,000 identified from outstanding balances as of April 28, 1995 from Brooklyn HSC Foundation accounts into appropriate accounts.

**Recommendation 4**

*Identify and recover improper payments made to State and RFSUNY employees by the BMF.*

Status - Not Implemented

Agency Action - Brooklyn officials told us that they have not recovered the improper payments discussed in our audit report because they believed that their ability to recover payments

was administratively restricted to payments made by the State only, and not the BMF. Furthermore, the officials noted that the payments were not made from State or Research Foundation funds, but rather from BMF funds. BMF was formally dissolved, thereby making recovery administratively unfeasible.

Auditors' Comments - We believe that the BMF had the authority to ask both the RFSUNY and State employees to return any improper payments and should have done so.

### **Recommendation 5**

*Enforce the Stony Brook campus and SBF policies in place to ensure that State revenues are appropriately administered.*

Status - Implemented

Agency Action - The SUNY Stony Brook Office of Management Analysis and Audit issued a memorandum dated April 1, 1997, to Stony Brook Foundation (SBF) Account Directors and Faculty Student Association (FSA) Account Directors, which addressed revenue and disbursement issues cited in our prior audit report. The memo reinforced proper procedures for handing State revenues and documenting expenditures made through University-related entities. For example, the memo states that account directors should not deposit State revenues into trust and agency, restricted or unrestricted accounts within the SBF, FSA and Research Foundation.

In addition, a Stony Brook official indicated that management has made a number of changes to further reinforce these policies and procedures. Such changes include conducting in 1995 an informal review of disbursement transactions and providing Foundation and Faculty Student Association staff additional training on disbursement policies and administration of State revenues. Foundation purchasing and disburdenment functions were located with the State and Research Foundation purchasing and accounts payable functions to facilitate improved oversight.

### **Recommendation 6**

*Enforce the SBF and Stony Brook FSA disbursement processing procedures to ensure that:*

- *all disbursements from agency and restricted accounts comply with the purpose for which those accounts were established;*
- *adequate supporting documentation accompany all disbursement requests;*
- *authorized signatures are obtained for each disbursement request; and*
- *all payments to individuals are properly handled to ensure accurate tax reporting.*

Status - Implemented

Agency Action - As mentioned previously, the memorandum dated April 1, 1997, from the Office

of Management Analysis and Audit to all account directors reinforced proper procedures for handling revenues and expenses through these accounts. The memo reiterated all of the points covered in this recommendation. Further, as mentioned above, management has made a number of changes which they believe will facilitate compliance with these policies and procedures.

### **Recommendation 7**

*Identify and recover State revenues inappropriately deposited into SBF accounts.*

Status - Partially implemented

Agency Action - In our prior audit report, we identified three instances where State revenues totaling \$262,986 were inappropriately deposited into three SBF restricted fund accounts. In the first instance, we found that \$233,500 from an hospital affiliation agreement had been deposited into a restricted account instead of a SUNY Income Fund Reimbursable (IFR) account. In response to our original audit report, Stony Brook officials advised us that \$63,500 in expenditures had already been expended to support administration of the surgical residency program and that they agreed to transfer the net unexpended amount (\$170,000) to the IFR account. In our follow up review, officials have provided us with documentation which shows that the remaining \$170,000 was transferred to an IFR account.

In the second instance, we identified \$29,000 in proceeds from two other hospital affiliation agreements which were inappropriately deposited into the Orthopedic Surgery account instead of an IFR account. In our follow up review, Stony Brook officials disagreed with us that the \$29,000 was payable to the University under the affiliation agreements. The officials maintain that this money, designated as support for the residency programs, was not covered by the agreements and therefore was properly deposited into the SBF restricted account.

In the third instance, we identified \$500 in rental revenue from November 1992 that was improperly deposited into a Theater and Performing Arts account instead of an IFR account. Stony Brook officials told us that the money was spent, precluding the transfer of these funds into the appropriate account.

### **Recommendation 8**

*Enforce the UBF and the Buffalo FSA procedures for agency accounts to ensure that:*

- *authorized signatures are obtained for each disbursement request; and*
- *disbursements agree with the purpose of the account from which they are expended.*

Status - Implemented

Agency Action - Buffalo officials have added, as authorized signatures, two assistant directors for the Office of Conferences and Special Events accounts. They believe this will increase compliance with the requirement for authorized signatures.

**Recommendation 9**

*Investigate the instances where disbursements were made based upon what appeared to be unauthorized signatures.*

Status - Implemented

Agency Action - Buffalo officials indicated to us that they investigated the disbursements identified in our audit report and determined that the Assistant Director of Conferences and Special Events improperly provided signatures in several instances. The officials said that the disbursements appeared to be appropriate, therefore no other action was necessary regarding these instances.

Major contributors to this report were William Nealon, Karen Bogucki, Richard Loveless, Joanne Kavich and Tom Kulzer.

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

Very truly yours,

Jerry Barber  
Audit Director

cc: Charles Conaway