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ABSTRACT

The 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 at the State University of New York Maritime College, which trains students to become licensed officers in the U.S. Merchant Marine. Among other responsibilities, the FSA provides the college bookstore and oversees the contract for campus food service. This report presents audit findings about the financial management practices of the FSA for July 1, 1999 through January 31, 2002. The audit was conducted in accordance with generally accepted government auditing standards. Certain management oversight responsibilities were found not to have been met. As a result, the effectiveness of the FSA's internal control environment was diminished. In addition, FSA internal control procedures and practices were found to be inadequate in several instances. The FSA Board met only four times in the 2.5 year audit period, and there was no documentation that it had exercised management responsibilities. There was no assurance that reasonable prices had been obtained for contracted services. For fiscal years 1999-2000 and 2000-2001, the FSA bookstore lost a total of $447,799. Steps had already been taken to address these concerns, and college officials suggest that this report does not reflect the transition the college has been making to secure financial responsibility. An appendix lists major contributors to the report. (SLD)

A REPORT BY THE NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

H. Carl McCall
STATE COMPTROLLER

STATE UNIVERSITY OF NEW YORK MARITIME COLLEGE FACULTY STUDENT ASSOCIATION

SELECTED FINANCIAL MANAGEMENT PRACTICES

2001-S-25

DIVISION OF MANAGEMENT AUDIT AND STATE FINANCIAL SERVICES

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H. Carl McCall
STATE COMPTROLLER

Report 2001-S-25

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

Dear Mr. King:

The following is our audit report on selected financial management practices of the Maritime College Faculty Student Association.

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. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

December 5, 2002

EXECUTIVE SUMMARY

STATE UNIVERSITY OF NEW YORK

MARITIME COLLEGE FACULTY STUDENT ASSOCIATION

SELECTED FINANCIAL MANAGEMENT PRACTICES

SCOPE OF AUDIT

The Maritime College (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 statements for the 2000-2001 fiscal year, revenue from operations totaled about $3.3 million, and net assets increased from the previous year by about $247,000 to over $1.3 million.

Our audit addressed the following questions relating to selected financial management practices of the FSA for the period July 1, 1999 through January 31, 2002:

- Was oversight of FSA operations adequate?
- Did the FSA have proper internal controls over contracts, financial statements, revenue and disbursements?

AUDIT OBSERVATIONS AND CONCLUSIONS

We found that 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. As a result, the effectiveness of the FSA's internal control environment was diminished. Also, FSA internal control procedures and practices were inadequate in several instances.

We found that the Board met only four times during our two and one-half year audit period and there was no documentation it exercised management

responsibilities during these meetings. For example, there was no evidence that the Board had been reviewing and approving FSA contracts or addressing the performance of the contractors even though the FSA had 15 contracts totaling over $24 million. The FSA contract also requires the FSA to prepare annual budgets that are to be approved by the College President and submitted to SUNY System Administration. For the 1998-99 and 1999-2000 fiscal years, no budgets were prepared for the FSA. (See pp. 5-7)

We found that, generally, there was no assurance reasonable prices were obtained for contracted services because the FSA neither competitively bid 14 of its 15 contracts in effect during our audit period nor documented how contractors were selected. None of the 15 contracts were signed by the College President, as required, and only one had the required written approval of the FSA President. A $1.2 million telephone services contract originally was submitted to the Office of the State Comptroller as an amendment to a pre-existing College telephone service agreement. However, the Office of the State Comptroller rejected the amendment on the basis that its terms and conditions required an entire new contract that adhered to the State's bidding and procurement requirements. Apparently to circumvent this decision, the FSA Treasurer processed this transaction as an FSA contract without competition. (See pp. 9-10)

For fiscal years 1999-2000 and 2000-2001, the FSA bookstore lost a total of $447,799. We also noted that separation agreements for departing FSA employees were very costly and control over employees' time and leave accruals was inadequate. Several FSA expenditures had no documentation to establish their relevance to the operation and mission of an FSA. (See pp. 13-15)

We also noted that a new administration at the College was addressing the matters that our audit identified during the audit period. The College reports that the FSA bookstore was outsourced beginning July 2002. (See pp. 6 and 14)

Comments of SUNY Officials

SUNY and College officials agree with our recommendations and indicate that most already have been implemented. Officials conclude that our report does not adequately address the transition that the College had been making and continues to make to improve FSA operations and controls.

CONTENTS

Appendix B

Comments of College and System Administration Officials

Appendix C

State Comptroller's Notes

INTRODUCTION

Background

The Maritime College (College) Faculty Student Association (FSA) is a campus-based, not-for-profit corporation, referred to as an auxiliary services 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. The FSA also is required to comply with the State University of New York (SUNY) Guidelines for Auxiliary Services Corporations (guidelines) and with the FSA's own bylaws. The contract incorporates SUNY's guidelines.

The contract sets forth the following requirements: the management of the FSA is vested in its Board of Directors (Board); the FSA is required to prepare an annual operating budget; the College President must approve all FSA contracts; and the FSA is required to have an independent certified audit of its accounts annually by a certified public accountant. The FSA bylaws require that all FSA agreements be signed by the FSA President, and that all withdrawals from FSA accounts be authorized, in writing, by approved managers.

According to the FSA's financial statements for the 2000-2001 fiscal year, revenues from operations totaled about $3.3 million, and net assets increased from the previous year by about $247,000 to over $1.3 million.

Audit Scope, Objectives and Methodology

We audited selected financial management practices of the College's FSA for the period July 1, 1999 through January 31, 2002. The objectives of our financial related audit were to determine whether there was adequate oversight over FSA operations and proper controls for FSA contracts, financial statements, revenue and disbursements.

To accomplish our objectives, we interviewed employees of the FSA, the College and SUNY System Administration. In addition, we reviewed the FSA contract (with the College), the FSA bylaws, SUNY guidelines, the FSA's financial books and records, and SUNY System Administration and FSA records of equipment inventory. We also reviewed a sample of FSA disbursements, and reviewed the bid and award process for all of the FSA's vendor contracts in effect during our audit period.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the FSA that are included in our audit scope. Further, these standards require that we understand the FSA's internal control structure and compliance with those laws, rules and regulations that are relevant to the operations that are 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 that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, we devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Internal Control and Compliance Summary

Our consideration of the FSA's internal control structure focused on contracts, financial statements, revenue, disbursements and equipment inventory. We identified significant control weaknesses in these areas, which we identify throughout this report.

Response of SUNY and College Officials

A draft copy of this report was provided to SUNY System Administration and College officials for their review and comment. Their comments were considered in preparing this report and are included in Appendix B. Appendix C contains State Comptroller's Notes, which address matters contained in the response of SUNY System Administration and the College.

Within 90 days after 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, the State Comptroller, and the 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 therefor.

OVERSIGHT

The internal control environment is the attitude toward internal control and control consciousness established and maintained by the management and employees of the organization. The FSA bylaws and the contract between the FSA and the College specify responsibilities that the FSA Board of Directors (Board), the College President and SUNY System Administration need to perform in overseeing the operation of the FSA. Fulfilling these responsibilities helps to establish a proper internal control environment for the FSA and sends a message to the organization that a strong system of internal control is valued and necessary. We found that provisions of the FSA bylaws and the FSA contract that specified oversight responsibilities had not been met. As a result, the effectiveness of the control environment at the FSA was diminished and the value and the need for internal control procedures had not been communicated and reinforced to the organization. Consequently, as discussed in the remaining subsections of this report, FSA internal control procedures and practices were inadequate in many instances.

According to the FSA contract, the overall management of the FSA is vested in its Board of Directors that comprises the representatives of College administration, faculty and students. To effectively fulfill this overall management responsibility, we believe the Board should be meeting routinely to address significant matters and should be documenting the outcomes and decisions of these meetings. However, documentation provided to us supports that the Board only held four meetings during our 31-month audit period, and three of these were annual meetings required by the bylaws. In addition, the records kept for these meetings did not indicate that the Board was exercising management responsibility. For example, the Board was not reviewing, approving or otherwise assessing FSA contracts with outside vendors. As discussed in the section of this report entitled "Contracts," the FSA administers 15 contracts with a value over $24 million accounting for many of the services provided by the FSA over extended periods of time. We question how a Board can exercise its required management responsibility without ongoing, documented

meetings that address such matters as the status, performance, competitive award and approval of contracts and the general operation of the FSA. Also, although the FSA contract requires the College President to approve FSA contracts with vendors and the FSA bylaws require the FSA President to also approve these contracts, none of the 15 contracts were signed by the College President and only one had the required approval of the FSA President.

The FSA contract also requires the FSA to prepare an annual operating budget that must be submitted to and approved by the College President and shared with SUNY System Administration. While the Board of the FSA would not be responsible for preparing such a budget, it is reasonable to expect that the review and acceptance of the FSA operating budget would be part of the Board's ongoing management responsibility. We found that the FSA did not prepare budgets for the 1998-1999 and 1999-2000 fiscal years. Moreover, there is neither support that the Board exercised its management responsibility, nor that the College President and SUNY System Administration exercised their oversight responsibility to address the lack of timely budgets.

The FSA bylaws require that FSA disbursements must have written authorization of both the FSA Treasurer and the FSA Secretary or such other persons designated by the Board. We found that FSA Treasurer and Secretary were not always approving FSA disbursements. Two other officials who were performing this duty were doing so without the official authorization of the Board.

The College has taken positive steps to address the matters contained in this report. In September of 1999, the College hired a new Vice President of Administration. A new President was confirmed by the SUNY Trustees in October of 2001 to take office in June of 2002. An interim President was appointed to serve from October 2001 until the new President was able to assume his duties. At the closing conference for this audit in August of 2002, the Vice President for Administration informed us that many of the shortcomings identified by our audit have been addressed. For example, the Board has been meeting on a regular basis, new outside auditors have been hired, annual budgets are being prepared and submitted to System Administration and the bookstore has been outsourced under a

contract that will provide for the College to receive a fixed amount of income annually.

Recommendations

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

   (College officials indicate that they have been in compliance with recommendation number 1 starting in 2001.)

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 by
   - Requiring the FSA Treasurer to provide written approval for FSA disbursements or obtain Board authorization for other designated officials to perform this function.

   (College officials indicate that they have been in compliance with recommendation number 2 starting in 2000.)

CONTRACTS

The FSA had 15 contracts in effect during our audit period with a total value over $24 million. The food services contract was the largest of these, accounting for about $22 million over an 11-year term. Another large contract was for telephone services, accounting for $1.2 million over a ten-year period. Good internal controls for extensive contracting such as occurs at the FSA include contract bid and award procedures that provide for obtaining quality services at the best price. In those instances where there is no competition in the contracting process, written justification should support the use of alternative contracting methods. Also, the services contracted for should be consistent with the mission of the FSA. In this regard, the FSA should not be used to procure services that are the responsibility of the College or to bypass State contracting requirements. In addition, major procurements should be pursuant to formal contracts so that terms and conditions are clearly stated to all parties.

We determined that, generally, there was no assurance that reasonable prices were obtained because the FSA had neither competitively bid 14 of its 15 contracts nor documented the explanation and justification for how the contractors were selected. (As previously noted, none of the 15 contracts were signed by the College President and only one was signed by the FSA President. There was no evidence of Board approval on any of the contracts.)

The contracts that were not bid included the food services contract and the telephone services contract. Among the other significant services that were not bid was the purchase of student health insurance (approximately $200,000 a year).

We also found that the former FSA Treasurer approved the food service contract in May 1997 and, in August 1998 (15 months into the 11-year contract) this official signed a contract amendment with the food service provider increasing the resident dining rates without documented, corresponding benefits. Similarly, for Fall of 1999, when cable television services became a required service to all students, the former FSA Treasurer signed an amendment to the cable television

service contract increasing annual costs by $14,971 (72 percent) without a documented explanation about why the amendment was required and without support that there was any increase in the quality or quantity of service. The amendment took place in the seventh year of this ten-year contract.

The telephone service contract was signed into effect in April 1999. Originally, this contract was submitted by the College to the Office of the State Comptroller (OSC) as an amendment to the College's pre-existing telephone service agreement. OSC rejected the contract amendment on the basis that its terms and conditions required a new contract that would have to adhere to the State's bidding requirements as well as other purchasing requirements. Apparently to circumvent this decision and the related requirements, the former FSA Treasurer processed this contract though the FSA, thus avoiding the need for OSC approval.

Fees totaling $112,563 were paid to a consultant for services to assist the College in recruiting new students and obtaining additional funding from SUNY. As the FSA's mission is to operate, manage and promote educationally related services for the campus community, expenditures of this nature are not appropriate for the FSA to incur and should be contracted through the College. This service was also not bid and FSA officials reported that the former College President selected the firm.

In response to our findings, the FSA Board passed a resolution requiring Board approval of all revenue and expense contracts exceeding $50,000.

Recommendations

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.

   (College officials indicate that they have been in compliance with recommendation number 3 starting in 2001.)

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

   (College officials indicate that the FSA Board feels that contracts entered into are within the College's mission.)

   Auditors' Comments: We reiterate that our audit shows contracts in effect that were outside the scope of the FSA and were for services that were a College responsibility.)

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

   (College officials agree with recommendation number 5.)

DEFICITS

The FSA should have strategic plans in place for eliminating deficits in providing FSA services. In addition, FSA disbursements should be relevant to the mission and purpose of the FSA to further reduce the risk of deficits. We found that the College bookstore had been running deficits for several years and that FSA bookstore employees had received what appears to be excessive separation payments. These conditions require strategic focus and planning to correct. We also noted the use of FSA funds to pay for College operating expenses. As a result of these practices, less money was available to support the mission of the FSA.

Bookstore Operation

Based on the FSA's certified financial statements, its bookstore operation had lost a combined $447,799 dollars for fiscal year 1999-2000 and fiscal year 2000-2001.

Fiscal Year	Revenues	Expenses	Annual Losses
1999/2000	$ 790,784	$1,107,535	$316,751
2000/2001	921,878	1,052,926	131,048
Total	$1,712,662	$2,160,461	$447,799

We found no strategic plan in place for eliminating this deficit, including exploring the potential of contracting out this operation. Furthermore, when we examined bookstore operations we identified practices that were contributing to the deficit.

For example, we found that the FSA did not require its employees to submit timesheets; did not keep track of employee leave balances; and did not have employment agreements in effect that, among other things, specified the terms of their compensation upon employees' separation from service. As a result, we found that bookstore employees were paid separation payments that could not be adequately supported by leave

accrual records and that appeared to be excessive, thereby adding to the deficit of this operation.

We found that separation payments were made to two bookstore employees who left service in July 1999. The former bookstore manager was paid $21,831 for 18 weeks of claimed unused leave and his assistant was paid $5,610 for 9 weeks of claimed unused leave. For comparison purposes, the maximum leave a State employee may be paid upon separation is six weeks. There were no employment agreements which detailed what benefits these employees were entitled to. The FSA did not have personnel records for these employees that indicated their official leave balances at the time they left. There was no documentation to support the terms of payments made to one of the two employees. The only documentation provided by the FSA for the separation payments to the other employee was a July 1, 1999 memo from the former bookstore assistant to the former FSA Treasurer stating that he had 240 hours of annual leave, 129 hours of overtime/comp time and 192 days of sick leave that would be applied to his health plan. The former FSA Treasurer approved the memo. Additionally, the former FSA Treasurer noted that health insurance for the two employees' would be paid through May 3, 2000.

We estimate that over $22,000 was paid for health insurance for the two employees. It also appears that their health insurance was paid for over a year past the date approved by the former FSA Treasurer as we found payments during the period July 1999 through May 2001. In total, we estimate that the FSA paid over $49,000 in separation benefits that were not outlined/substantiated by any time records and employment agreements. Although not required by FSA bylaws or other policies and procedures, this type of situation should require Board approval as a control mechanism, instead of leaving the matters to the discretion of only a single FSA manager.

(College officials identify that in 2001 the Board gave approval to receive and evaluate bids for outsourcing the bookstore. Beginning July 2002, the bookstore was outsourced.)

Use of FSA Funds

According to its certificate of incorporation, the purposes of the College FSA are to "establish, operate, manage, promote, and cultivate educational activities and relationships incidental thereto by, between and among the students and

faculty of the State University of New York Maritime College, and to aid the students, faculty and administration of the College in the furtherance of their education and studies, work, living incidental thereto, in collaboration and coordination with the educational goals of the College." According to the FSA contract, the general purpose of the FSA is to "establish, operate, manage, and promote educationally related services for the benefit of the campus community in harmony with the educational mission and goals of the campus."

We identified FSA disbursements for which there was no explanation/justification as to their relevance to the operations and mission of the FSA. A note in the FSA-prepared 1999-2000 Summary of Operations report stated "program expenditures have been high for several years, as the FSA has attempted to assist the College in balancing its own budget." For example, we noted the following:

- $42,403 was paid to a firm performing the search for a new College President.
- $13,500 was paid for the services of a Washington lobbyist firm on behalf of the College.
- $5,000 was paid to a firm for two months public relations work on behalf of the College.
- $4,653 was spent for a proxima projector for the College Placement Office.
- $2,225 was paid for the farewell party for the former College Vice President of Administration.
- $1,480 was paid for the College's holiday cards.

Recommendations

6. Recommendation number 6 has been deleted.

7. Recommendation number 7 has been deleted.

8. Recommendation number 8 has been deleted.

9. Recommendation number 9 has been deleted.

   Auditors' Comments: Recommendations number 6 through number 9 pertained to the operation of the bookstore by the FSA. Since the College has confirmed that the FSA outsourced the bookstore operation effective July 2002, these recommendations were no longer applicable and were, therefore, deleted in the preparation of this final audit report.

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.

    (College officials indicate that the FSA Board feels that the expenditures cited in our report are within the mission of the FSA.)

    Auditors' Comments: We reiterate that the expenditures do not show a clear relationship to educational services for the benefit of the campus community.

FINANCIAL STATEMENT CONTROL

The FSA contract requires the FSA to prepare its financial statements in accordance with generally accepted accounting principles, to have these statements audited annually by an independent, certified public accountant (CPA), and to submit copies of the statements to SUNY System Administration. From our review of the audited FSA statements, we identified certain concerns discussed in the following paragraphs.

According to the FSA's financial statements, $582,315 was disbursed by the FSA to the Maritime College Foundation to fund the Development Office for the President's Capital Campaign during fiscal years 1996-1997, 1997-1998, 1998-1999 and 1999-2000. We could only confirm that $513,793 was disbursed. According to FSA and the Foundation records, $322,298 was disbursed to the Foundation, $78,932 was directly spent by the FSA on Development Office expenses, and $112,563 was directly paid by the FSA to a consultant firm. We recommend that the College follow up to determine the appropriate disbursement of the $68,522 that we were unable to confirm.

Although the student health insurance is the third highest revenue and expenditure source (over $200,000 annually), it is not disclosed on the financial statements as a separate revenue source and expense as other lesser items are. The net revenues are included in the Sundry Income or Administrative Fees categories. In 2000-2001, the FSA recognized $105,396 in accumulated student health insurance profit. However, there is no footnote in the 2000-2001 financial statements disclosing this, and FSA officials could not explain how this amount was determined.

Additionally, there was no documentation to support $135,883 in land, buildings, and equipment and the write-off of $69,103 of merchandise inventory for 1999-2000. Also, a reserve for the replacement of State-owned equipment was not funded as indicated on the financial statements. Instead of the required reserve, the account actually represented the cost of State-owned equipment purchased during the period; the FSA

inappropriately recorded these costs on its financial statements as reserve funds.

According to the contract, the FSA should have a sufficient level of current assets that provide adequate amounts to meet current liabilities, provide reserves to meet inflationary increases in operating expenses and unexpected emergencies, and provide reserves to replace FSA-owned equipment. One guideline used by SUNY to evaluate an FSA's equity position is that working capital (current assets less current liabilities) should be equal to at least two times current liabilities. The purpose of this requirement is to ensure that the FSA remains financially solvent and viable. From reviewing the FSA financial statements, we found that the FSA did not meet this requirement.

Recommendations

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

    (College officials indicate that the FSA no longer provides funding to the Foundation. Also, College officials indicate that the Foundation would not cooperate to address recommendation number 11. System Administration officials indicate that it is not cost effective to implement this recommendation and it pertains to records that are prior to the stated audit period.)

    Auditors' Comments: We believe that System Administration and the College should coordinate to ensure the Foundation cooperates to implement this recommendation. This action is justified because the discrepancy between the accounting records and financial statements is sizable for this particular expenditure. We tested prior to the audit scope to try to fully account for the discrepancy.

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 development activity expenses; FSA land, buildings and equipment assets; and merchandise inventory write-off expense.

Recommendations (Cont'd)

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.

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

    (College officials agree with recommendations number 12 through number 14.)

OTHER INTERNAL CONTROLS

FSA management (including the FSA President) should develop adequate internal control procedures for FSA operations and, as appropriate, these should be approved by the Board. Internal control provides reasonable assurance regarding the achievement of objectives including the effectiveness and efficiency of operations, the reliability of financial reporting, and compliance with applicable laws and regulations.

We found some significant weaknesses in internal controls over the financial operations of the FSA. While we were not able to identify any specific instances of misappropriation, the lack of controls in the following areas increases the risk that such misappropriation could occur and go undetected.

Disbursements

- Checks should not be made payable to cash, in order to help ensure that the disbursement is made for appropriate purposes. We noted 24 FSA checks totaling $26,833 that were made payable to cash during the period July 20, 2000 to May 30, 2001.

- All disbursements should have adequate documentation to support the reason for the expenditure. We selected a judgmental sample of 60 disbursements totaling $481,796 out of over $7 million disbursed by the FSA during the period July 1, 1999 to June 30, 2001. The disbursements selected were based upon payee, description and amount. We were not provided with adequate supporting documentation for 12 disbursements totaling $56,164 out of $481,796 reviewed.

- Disbursements should be for the purposes of the FSA and should be documented. However, we found that the bookstore sometimes operated as a bank loaning cash to College departments, employees, students and clubs. Such loans were not always properly documented. For example, the bookstore manager loaned $175 to the

Admissions Office. The only documentation of the loan was a note that the bookstore manager made to himself. No one from the Admissions Office signed the note, the note was not dated, and there was no payment due date.

- Disbursements should be made by check rather than by cash, as a control over unauthorized or inappropriate expenditures. On September 5, 2001, we found the FSA Bookstore Manager was refunding $6,164 to student clubs and individual students in the form of cash instead of by check.

Revenue

- Excess cash should be kept in an account where it can earn interest and be properly safeguarded. However, the bookstore maintained an unusually high minimum balance of cash on hand of $7,000.

- The combination to the safe should be periodically changed as a safeguard against unauthorized personnel gaining access to the combination. The bookstore safe combination had not been changed since at least 1998.

- Collections from vending machines should be witnessed by an FSA employee to ensure the vendor submits accurate commissions. In three instances where we observed machine collections, FSA employees did not accompany the vendor employee while he made collections from the machines. These vendor employees told us FSA employees never witness vending machine collections.

- According to bookstore billing records, cable television service was provided on campus to the residences of the College President, the Associate Director of Admissions, the Commandant of Cadets and the offices of the New York City Police and the New York State Police. The Bookstore Manager told us he bills these customers semi-annually. However, we found these customers were last billed in October 2000 for the period from July to December 2000. They were not billed for any service in 2001 as of September 2001. In addition, we found the FSA was not aware of all those on campus who were receiving cable television service and therefore never

billed certain customers. We found that there were at least three employees and eight graduate students living on campus who received cable television service without being billed. We conservatively estimate that the FSA lost $1,736 in cable television income for the fiscal year from July 2000 to June 2001 because of the failure to bill.

Inventory

- Equipment assets should be adequately safeguarded. We noted that 11 of 26 State-owned equipment items under FSA control costing $81,185 could not be found. Eight of the missing State owned equipment items were reportedly disposed of by the food service vendor without formal notification to the FSA.

Recommendations

15. Write checks only to named payees.

    (College officials agree with recommendation number 15.)

16. Require adequate supporting documentation for all FSA expenditures.

    (College officials indicate that they have been in compliance with recommendation number 16 starting in 2001.)

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

18. Use checks to issue refunds to clubs and students.

    (College officials indicate that recommendation number 17 and recommendation number 18 are implemented.)

19. Recommendation number 19 has been deleted.

20. Recommendation number 20 has been deleted.

Recommendations (Cont'd)

Auditors' Comments: Recommendations number 19 and number 20 pertained to the operation of the bookstore by the FSA. Since the College has confirmed that the FSA outsourced the bookstore operation effective July 2002, these recommendations were no longer applicable and were, therefore, deleted in the preparation of this final audit report.

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

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

    (College officials agree with recommendation number 21 and recommendation number 22.)

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

    (College officials indicate that a College Accountant has been assigned responsibility for this recommendation since July 2001.)

ETHICS LAW

We identified a situation that we believe may be a violation of the New York State Ethics Law. The New York State Public Officers Law prohibits all former State employees from "appearing or practicing" before their former agencies for two years after they leave their State jobs. This prohibition means that former State employees may not, while on official business, write letters to their former agency or call agency staff.

On June 8, 1999, while still employed by the College, the former Vice President of Administration instructed the FSA bookstore manager to write a check for $20,000 from the FSA bank account to the Maritime College Foundation for the down payment on ten Xybernaut computers. He left College service in November 1999. On June 30, 2000 in his new capacity as an employee of the Xybernaut Corporation, he sent a dunning letter to the SUNY Vice Chancellor requesting payment for the balance due of $46,701 for the computers. Even though he had left the College, the former Vice President of Administration was still a Trustee of the Foundation. The former Vice President of Administration wrote the Foundation President on July 31, 2000, noting in his letter his capacity as "Trustee SUNY Maritime Foundation" and indicating that Xybernaut would pursue legal action if the debt were not paid.

Correspondence between the Presidents of the College and Foundation stated that an agreement was finally reached whereby SUNY Maritime College would pay the balance due of $46,701 and it would be repaid by funds from SUNY System Administration. The computers are now the property of the College. We observed that 9 of the 10 computers were stored in the technology room closet and were not being used at the time of our audit. The tenth computer could not be located or accounted for.

According to employee records on file at the New York State Ethics Commission, both the former College President and the former Vice President of Administration/FSA Treasurer held over $1,000 in Xybernaut stock in 1998, prior to the June 1999 computer purchase. Depending on the actual amount of stock

the employees held in the company, this potentially could have been a second ethics violation.

Recommendation

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

    (College officials indicate that this recommendation has been implemented through SUNY's Auditor and Legal Counsel.)

MAJOR CONTRIBUTORS TO THIS REPORT

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October 11, 2002

Mr. Jerry Barber
Audit Director
Office of the State Comptroller
The State Office Building
Albany, New York 12236

Dear Mr. Barber:

In accordance with Section 170 of the Executive Law, we are enclosing the comments of Maritime College regarding the draft audit report on Maritime College Faculty Student Association (2001-S-25).

Sincerely,

Enclosure

Appendix B

State University of New York
Maritime College Faculty Student Association
2001-S-25

Maritime College

The Executive Summary of the State University of New York Maritime College Faculty Student Association Selected Financial Management Practices does not provide an understanding of the significant transition Maritime College has achieved.

Prior to 1999, the College and the Faulty Student Association (FSA) were both in severe deficit budget positions, with little or no financial controls. In September 1999, SUNY System Administration intervened at the campus and impaneled a campus transition team, including new campus leadership. Today, the College has a balanced budget, the Faculty Student Association has an active board that has provided fiscal support for enhanced campus and academic life, and the College's enrollment is growing at a significant rate.

This audit's scope was identified as July 1, 1999 through January 31, 2002. While new leadership arrived on campus in September 1999, they were not able to actively participate in the Faculty Student Association until mid 2000. The previous Vice President of Administration, just prior to leaving asked the previous President to remove the Vice President position off the FSA Board. Therefore, the new campus leadership was unable to begin making changes until the 2000-01 year. There was a short period of assessment and stabilization and then a rapid period of change.

The audit implies that the College only began to address problems during the course of the audit. This statement is not true and is in no way consistent with any of the discussions with the Office of State Comptroller auditors. It is true, however, that providing a complete corrective overhaul of the organization is an ongoing process, and it is true that some of the changes were made during the course of this audit. The College at this point is continuing to refine some procedural issues. Most recently, the College replaced the previous bookkeeper with a CPA who is charged with refining daily accounting issues. * Note 1

The majority of the comments in this audit are for infractions outside the audit scope and prior to the active participation of the SUNY transition team on campus and prior to active participation by the Chief Operating Officer brought in to generate fiscal stability and campus based compliance. * Note 2

- For example, 14 of 15 contracts cited for procedural failures were all prior to the audit scope and signed by the previous Vice President of Administration. The (15^{th}) contract, a revenue contract, was bid, and received both Board and Presidential approval.

* See State Comptroller's Notes, Appendix C

- The statement regarding the frequency of Board meeting is also, accurate. The By-laws of the organization requires an annual meeting each year. In 2001-02, the Board met 8 times.

The Executive Summary also indicated the FSA Bookstore lost over $1M from 1996-2001 stating, " there was no strategic plan or clear direction to guide this operation into profitability." This statement is not only false, but it draws a negative, inaccurate picture of the current administration' s capabilities. This administration is moving the campus towards fiscal compliance, including the FSA. In 2000, members of the transition team and campus leadership assessed the bookstore operations. The FSA Board was advised of the problems, including discussions regarding the direction that would be taken to gain fiscal stability. Further, beginning 2000-01, budgets were discussed with the FSA Board and submitted to SUNY in a timely manner. The 2000-01 and 2001-02 budgets show a significant effort toward operation profitability. The financial statements also included an inventory adjustment that should have been taken in previous years. The Chief Operating Officer, with knowledge of the Board also correctly pulled investment funds out of a growth fund previously established by the former Vice President of Administration. This investment strategy prevented FSA from losing approximately 50% of their investment funds, as evidenced by the performance of the growth fund subsequent to the transfer date.

* Note 3

* Notes 1,4

Finally, contrary to the statements in the executive summary, there were significant discussions held regarding outsourcing the college bookstore, prior to the commencement of the audit. The suggestion was made by the Chief Operating Officer in 2000, but the Board indicated they wanted to move slowly. In 2001, the Board gave approval for the Chief Operating Officer to receive and evaluate bids for the outsourcing of the bookstore. The process began and the auditors were apprised of these issues as they progressed. The Board gave approval to bid, the bidding process was advertised (though not required,) bids were evaluated, the Board provided approval, the President gave approval and Follett took over operations beginning July 2002.

* Note 5

This executive summary does not resemble the discussions, the respect, the recognition of the progress the College and FSA has made, or the professional relationship of the campus auditors and the current college leadership during this audit. The campus was given the distinct impression, that the Office of State Comptroller audit team recognized the past administration created the deficiencies and the current administration, with SUNY's oversight was eliminating them in a thoughtful and responsible manner. They indicated they felt that Maritime College now had a responsible and competent team in place that was rapidly moving toward complete compliance and fiscal success.

* Notes 1,6

This summary, particularly for those who do not have a historical perspective, does not provide a clear or accurate picture. Instead, it is filled with discrepancies and with undertones that depict an inaccurate chronology of the significant progress made by both SUNY and the current Maritime College administration.

Please find below, responses to Office of State Comptroller recommendations:

* See State Comptroller's Notes, Appendix C

Oversight Recommendations:

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

Response:

In compliance since 2001

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;

Response:

In compliance since 2000

- Preparing timely FSA operating budgets that are adopted by the FSA Board of Directors and are subsequently submitted to the College President and the SUNY System Administration; and by

Response:

Done since 2000

- Requiring the FSA Treasurer to provide written approval for FSA disbursements or obtain Board authorization for other designated officials to perform this function.

Response:

Done since 2001

Contract Recommendations:

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

Response:

Done since 2001

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

Response:

The FSA Board feels that the contracts entered into are within the College's mission

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

Response:

Agree

6. Establish strategic plans and direction for overcoming the deficits of the book store operation.

Response: * Note 3

Outsourced the bookstore operations as of July, 2002

7. Prepare comprehensive employment agreements for all FSA employees.

Response: * Note 3

With the bookstore outsourced, the FSA no longer has any employees.

8. Require that termination payments for employees should conform to employment agreements and the amounts derived should be documented and approved by the appropriate FSA official and it warranted the Board. * Note 3

Response:

Agree, this occurred prior to 2000. With the bookstore outsourced, the FSA no longer has any employees.

9. Require that FSA employees maintain time and attendance records that must be reviewed and approved by their supervisors.

Response: * Note 3

Bookstore outsourced

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.

* See State Comptroller's Notes, Appendix C

Response:

See Response # 4

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

Response:

FSA no longer provides funding for the Foundation. The Foundation would not cooperate with the FSA or College to reconcile. Instituted by previous administration.

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 development activity expenses; FSA land, buildings and equipment assets; and merchandise inventory write-of expense.

Response:

Agree

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.

Response:

Done

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

Response:

Agree

Other Internal Control Recommendations

15. Write checks only to named payees.

Response:

Agree, was petty cash replenishment for store, issue eliminated with outsourcing.

16. Require adequate supporting documentation for all FSA expenditures.

Response:

Agree, since 2001 - instituted payment request process

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

Response:

Done

18. Use checks to issue refunds to clubs and students.

Response:

Done

19. Establish and maintain a reasonable amount of cash to be kept on hand in the bookstore to handle daily business transactions.

*
Note
3

Response:

Done, but not applicable with Follett outsourcing.

20. Change the combination of the bookstore safe on a periodic basis.

*
Note
3

Response:

Done, but not applicable with Follett outsourcing

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

Response:

Agree

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

Response:

Agree

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

* See State Comptroller's Notes, Appendix C

Response:

Previous responsibility of Bookstore Manager. College Accountant now responsible since July 1, 2002. Will be billed quarterly in arrears.

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

Response:

Done, through SUNY Auditor's & Legal Counsel.

System Administration

We concur with the College's response and add the following comments.

The audit offers many constructive recommendations for improvement of the management of the College's FSA, as exhibited by the College's actions to date to implement many of them. As a matter of fact, System Administration was aware of significant problems at the College across a broad spectrum of functions under its former leadership. Many of these problems came to light as a result of the Comptroller's audit of the College's financial management practices, as well as ongoing fiscal monitoring of the College's financial operations prior to 1999. As a result, System Administration provided both financial resources and staff to assist the College and its new leadership team. This resulted in recognition by the Comptroller in their follow-up audit on College's financial management practices that the College had fully implemented 95% of the recommendations and partially implemented the remainder (these have all been fully implemented at this time).

With respect to the College's FSA, change was more gradual due to the governance structure in place during 1999. Therefore, during the audit period, there is a noticeable change in the administration of the FSA as the College's current Vice President and Chief Operating Officer was able to convince the FSA's Board of operating improvements that were needed. Many of the exceptions cited by the auditors were remnants of practices which actually occurred prior to the audit period, the contract bidding and approval process as a prime example.

We believe the audit unfortunately sets a very negative tone with respect to the administration of the FSA, rather than emphasizing an organization in transition. Specifically, the Executive Summary devotes only one sentence at the very end to state that the "College began to address the matters identified by our audit during the course of our field work" when in fact, the College was working on a number of issues including the bookstore deficit prior to the auditors arrival on campus. The audit also goes outside the scope by including three years prior to the audit period to sensationalize the significance of the bookstore deficit as over $1 million, when in fact the deficit during the audit period was approximately $500,000 and reflected a positive trend ($54,000 loss for fiscal year ended 2002).

* *Notes 1,4,6*

* *Note 3*

* See State Comptroller's Notes, Appendix C

We also believe that it is inappropriate to include in the Executive Summary scope that the audit addressed the question of whether there were possible ethics violations. This appears to be an another attempt by the audit to cast the College's administration in as negative and sensational light as possible. The purpose of the audit, as detailed in the audit's entrance conference and engagement letter, was not to answer questions with respect to possible ethics violations. The University acknowledges questionable practices with respect to a former College official and had referred the matter to the Ethics Commission in February 2002. *Note 3*

We take exception to other matters contained in the audit report as follows:

- The background on page 1 states that the FSA "owns" the College's bookstore. While the FSA owns the inventory, the College owns the physical space occupied by the bookstore. *Note 3*
- The oversight section on page 5 states that System Administration did not exercise their oversight to address the lack of timely budgets, when indeed, System Administration followed up with the College when budgets were not submitted as required.
- The section of "Use of FSA Funds" on page 12 lists several examples where the audit questions the relevance to the expense of the mission of the FSA. It is not unusual, nor contrary to the SUNY Board of Trustees Auxiliary Services Corporations Guidelines, for the FSA to provide support for programs of a campus. However, program funding, budgeted and approved by the Board of Directors and the Chief Administrative Officer, shall be included in the FSA's annual budget provided that the financial position of the FSA supports the level of program funding. *Note 7*
- The section on financial statement control mentions three years that are prior to the stated scope of the audit. We do not believe that it is cost beneficial for the College to attempt to reconcile differences in the independently audited financials of the FSA and the Foundation *Note 8*

The University appreciates the opportunity to comment on the audit report and further appreciates full consideration of both the College and System Administration's comment.

State Comptroller's Notes

1. We saw little evidence at the College that substantive effort had been undertaken to address the problems cited in our report until our audit was underway in June of 2001. As College officials point out in their response, they were unable to begin making changes until the 2000-01 year. We acknowledge, however, that the current administration has taken positive steps to address the matters contained in our report and appears to be dedicated to getting the College and the FSA on firm financial footing.

2. Our audit examined 15 contracts that were in effect during our audit period. In order to determine if these contracts were properly awarded and approved we examined actions taken prior to the audit period. In should also be noted that five contracts were signed during the audit period and a sixth was renewed during our audit period. We also discuss that the Board met four times during our 31-month audit period. We are pleased to learn that the Board met eight times in the most recently completed fiscal year.

3. Certain matters addressed in the draft report were revised or deleted in the final report. Therefore, some comments of SUNY officials included as Appendix B may relate to matters no longer contained in this final audit report.

4. There was no mention in the Board Minutes for 1998, 1999 or 2000 regarding outsourcing the bookstore.

5. College and FSA officials did not provide us with any evidence that would indicate significant discussion took place with regard to outsourcing the bookstore, prior to the commencement of our audit in June of 2001.

6. By design, our Executive Summary is brief. On report page number 6 we clearly state that the College has taken positive steps to address matters presented within the report.

7. We question whether these expenditures pertain to educationally related services benefiting the campus community.

8. We believe this matter does warrant follow up because there is a considerable discrepancy between the financial statements and the underlying accounting records with regard to expenditures for the Development Office for the President's Capital Campaign. We tested prior to our audit scope to try to fully account for this discrepancy.

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