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ABSTRACT

This report is the result of an audit of selected financial management practices of the State University of New York (SUNY) at Albany for the period April 1, 1992 through July 31, 1994. The audit addressed the following practices: cash, payroll, purchasing, revenue accounting, accounts receivable, and computer contingency plans. The report concludes that SUNY Albany has, in general, established effective controls over its resources. Improvement opportunities are, however, identified in the following areas: payroll changes to ensure that paychecks are not generated erroneously; purchasing practices; cash controls; and computer center contingency planning. Comments by SUNY officials generally concur with most of the report recommendations. After an introduction summarizing the audit's findings, a section is dedicated to each of the major areas investigated. Appendices list major contributors to the report and present the comments of SUNY officials. (DB)

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State of New York
Office of the State Comptroller

Division of Management Audit

Report 94-S-85

Mr. Thomas A. Bartlett, Ph.D.
Chancellor
State University of New York
State University Plaza
Albany, NY 12246

Dear Dr. Bartlett:

The following is our audit report on selected financial management practices of the State University of New York at Albany.

This audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit

April 25, 1995

HE028341

Executive Summary

State University of New York at Albany Financial Management Practices

Scope of Audit

The State University of New York at Albany (SUNY Albany) is one of four university centers in the State University of New York (SUNY) system. SUNY Albany has more than 17,000 students, receiving about $40 million annually in tuition. For the 1993-94 fiscal year, State appropriations in support of SUNY Albany operations totaled over $94 million.

We audited selected financial management practices of SUNY Albany for the period April 1, 1992 through July 31, 1994. Our audit addressed the following question relative to SUNY Albany's cash, payroll, purchasing, revenue accounting, and accounts receivable practices and its computer contingency plans:

- Has SUNY Albany established appropriate controls over its resources to ensure that assets are properly safeguarded and that transactions are appropriate?

Audit Observations and Conclusions

We found that SUNY Albany has, in general, established effective controls over its resources. However, we have identified improvement opportunities in several areas. For example, we found that SUNY Albany needs to improve controls over payroll changes to ensure that paychecks are not generated erroneously. For the first two months of 1994, SUNY Albany returned 38 paychecks worth over $15,000 to the Office of the State Comptroller (OSC) as a result of paychecks issued in error. We identified two individuals who received and cashed such unearned paychecks. We also found that SUNY Albany's system for monitoring and controlling inappropriate use of sick leave credits is not as effective as it ought to be, and that improvements could be made in the monitoring and approval of overtime. (see pp. 3-5)

We determined that SUNY Albany's purchasing practices are generally in compliance with its guidelines, but that controls could be strengthened in some areas. For example, SUNY Albany could improve its purchasing practices by requiring that, when practical to do so, purchased items be delivered to the central receiving dock and counted to independently verify the amount delivered. We also identified control weaknesses in SUNY Albany's use of the Quick Pay Vouchering System. OSC provides the Quick Pay System to State agencies to allow them to process invoices more efficiently. SUNY can currently use Quick Pay to process vouchers of $1,000 or less. However, we found that SUNY Albany's primary Quick Pay certifier is also authorized to enter voucher data, contrary to the Office of the State Comptroller's guidelines related to separating Quick Pay's critical functions. (see pp. 7-9)

We also noted that SUNY Albany could improve its cash controls for peripheral cash collection locations, cash advance accounts and Income Fund Reimbursable (IFR) accounts. We found that appropriate controls are not followed at certain remote cash collection locations and that certain IFR account managers do not comply with the IFR procedures manual. Further, we found that SUNY Albany does not deposit the proceeds of checks outstanding over three years into the State's General Fund, as required by the State Finance Law. Instead, SUNY Albany follows SUNY's policy of depositing these funds in a SUNY income fund. As a result, over $15,000 was inappropriately deposited in a SUNY income fund. (see pp. 11-14)

Lastly, we determined that SUNY Albany could further improve its computer center contingency plan by identifying critical applications and periodically testing the contingency plan. (see pp. 15-16)

Comments of SUNY Officials

SUNY officials concur with most of our report recommendations and indicate that steps are being taken to implement them. They do not consider it fiscally feasible or efficient to require that purchases be delivered to a central receiving point for an independent verification of the amount delivered. Officials believe that the receiving procedures that are currently in place are adequate.

Contents

Introduction

Background

The State University of New York at Albany (SUNY Albany), established in 1844, is one of four university centers in the State University of New York (SUNY) system and the oldest of the SUNY colleges and universities. The main campus, opened in 1966, is situated on 382 acres on the west side of the City of Albany. SUNY Albany also maintains a campus in downtown Albany containing academic facilities, residence halls, offices and a library.

For the 22-month period ended January 31, 1994, SUNY Albany had total expenditures of $247.8 million, $163.7 million of which was for personal service expenditures for about 2,970 employees. SUNY Albany has more than 17,000 students and receives about $40 million annually in tuition. State appropriations for SUNY Albany operations for the 1993-94 fiscal year totaled over $94 million.

Audit Scope, Objectives and Methodology

We audited selected SUNY Albany financial management practices for the period April 1, 1992 through July 31, 1994. The objective of our performance audit was to evaluate the adequacy of the internal control structure and the propriety of transactions related to cash receipts and disbursements, payroll, purchasing, revenue accounting (including student accounts), accounts receivable, computer contingency plans, equipment inventory and auxiliary service corporation food purchases. To accomplish this objective, we reviewed SUNY Albany's policies and procedures, reviewed applicable rules and regulations, interviewed SUNY Albany management and staff, and reviewed appropriate documentation. We found no significant control weaknesses over student accounts, equipment inventory and auxiliary service corporation food purchases.

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 SUNY Albany which are included in our audit scope. These standards also require that we understand SUNY Albany's internal control structure and its compliance with those laws, rules and regulations that are relevant to SUNY Albany's 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 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 have been 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, little audit effort is devoted 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.

Response of SUNY Officials to Audit

A draft copy of this report was provided to SUNY officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

In addition to the matters covered in this report, we have provided SUNY officials with detailed comments and recommendations concerning other SUNY Albany financial practices. Although these matters are of lesser significance, the recommendations should be implemented to improve controls.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University 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.

Payroll and Personnel Issues

Our review of SUNY Albany's payroll and personnel procedures showed that SUNY Albany needs to improve controls over payroll changes to ensure that paychecks are not generated erroneously. SUNY Albany should also implement a more effective sick leave monitoring system, and more closely control overtime expenses.

Payroll Changes

Payroll change documents must be processed timely to ensure that employees are paid only for time worked. SUNY Albany relies upon each department to notify the Personnel Department of any changes in employee status that require payroll changes. In our prior audit of SUNY Albany (Report 89-S-59, issued in June 1990), we recommended that SUNY Albany improve its procedures to ensure that paychecks were generated only for individuals entitled to them. We found that SUNY Albany has improved controls over payroll changes for adding employees to the payroll, but needs to further improve controls to ensure the timely removal from the payroll of those who leave SUNY Albany employment.

We found that SUNY Albany inappropriately generated paychecks for individuals who were no longer employed by SUNY Albany. During the first two months of 1994, SUNY Albany returned to the Office of the State Comptroller (OSC) a total of 38 paychecks worth over $15,000 that had been issued in error to employees on the Main and Graduate/Teacher Assistant payrolls. This happened because SUNY Albany did not notify OSC of the employees' removal from the payroll in time to prevent the issuance of the paychecks. Most of the erroneously issued paychecks were only for the pay period immediately following the employees' last day of work. However, for three individuals, paychecks were generated for two or more consecutive pay periods. Further, we found that two individuals had received and cashed unearned paychecks. As a result of our review, SUNY Albany has recovered the $969 in excess payments made to these individuals.

Sick Leave Monitoring

Since 1982, State agencies have been required to develop and adopt a comprehensive program to reduce and control inappropriate use of sick leave credits. In our prior audit, we recommended that SUNY Albany design and implement a system to monitor and control sick leave use and abuse. In March 1994, SUNY Albany began implementing a formal sick leave monitoring system to replace its informal monitoring system. However, improvements could be made in the recently established formal system to better monitor sick leave use.

SUNY Albany's formal sick leave monitoring system generates reports which indicate the amount of sick leave used by each employee during the past year. However, the system does not define what constitutes potentially excessive sick leave use, or identify those employees who have used significant amounts of sick leave. In addition, the system does not indicate the dates that employees used sick leave. Therefore, supervisors cannot use the system to readily identify data indicating sick leave abuse, such as taking sick leave before or after weekends or holidays.

To estimate the extent of potential sick leave abuse, we determined the maximum potential balance of sick leave credits for all of SUNY Albany's 2,970 employees as of March 31, 1994. We found that about 400 employees (13 percent) had current sick leave balances which were less than 25 percent of their maximum potential balances. We then examined the sick leave usage of 15 of these employees, and found that three exhibited patterns of sick leave usage during 1993 that were indicative of abuse. These individuals, who had extremely low sick leave balances, had previously been counseled about their use of sick leave credits. However, SUNY Albany's monitoring actions do not appear to have been effective in curbing their potential abuse of sick leave:

- One employee of 11 years had a sick leave accrual balance of 16 hours and his excessive sick leave use was noted on his December 1992 performance evaluation. Yet, this employee continued to use sick leave credits during 1993 on days immediately following holidays.

- The second employee had a sick leave accrual balance of 12 hours after ten years of employment, and was cited for excessive sick leave use for two consecutive years, but continued to use sick leave credits without supporting medical documentation on days immediately preceding or following weekends during 1993.

- The third employee had a sick leave accrual balance of 9.5 hours after 28 years of employment. His excessive use of sick leave credits was noted on his September 1990 performance evaluation. However, this individual continued to use sick leave credits on days immediately preceding or following weekends or holidays on six occasions during 1993, without supporting medical documentation.

To ensure adequate monitoring of sick leave use, SUNY Albany should obtain more specific sick leave usage information from its monitoring system and instruct supervisors to identify and report patterns of potential sick leave abuse.

Overtime

Overtime use should be closely monitored to ensure that overtime is necessary and that excessive premium costs are not incurred. Generally, each SUNY Albany department is responsible for reviewing and approving requests for overtime. However, we identified instances of overtime payments for work which appears could have been completed during normal work hours. For example, one employee was paid overtime for washing buses. There was no indication of why overtime was needed to complete this work.

Another employee received $3,775 in overtime payments for painting work that could have been completed during his normal work day. This employee routinely received overtime payments for this work after being absent during normal work hours. A review of the employee's time and attendance records showed a pattern of this individual taking Fridays off and then working Saturdays, receiving overtime pay for the Saturday work. On 9 of 22 such instances, the employee used sick leave credits on Friday, and then worked Saturday, receiving overtime pay. As a result, SUNY Albany was paying this employee premium wages for work which should have been completed during normal work hours.

Recommendations

1. Improve controls over deletions from the payroll so that paychecks are not issued in error.

2. Improve the sick leave monitoring system to identify patterns of use and implement procedures to curb potential sick leave abuse.

3. Ensure that all overtime is necessary.

Purchasing Practices

For the 22-month period ended January 31, 1994, SUNY Albany spent over $84 million on discretionary purchases, including approximately $2.2 million in Quick Pay voucher transactions. SUNY Albany's Purchasing Department is responsible for all purchasing transactions except for direct payments such as advertising, travel, and utility payments, and student stipends, which are processed by the Accounting Department.

We determined that, in general, SUNY Albany's purchasing practices comply with its Institutional Services Manual and Purchasing and Contracting Procedures and with State Purchasing and Contract Guidelines. However, we found that internal controls for receiving goods need improvement to ensure that SUNY Albany receives and pays for only authorized purchases. We also identified significant deficiencies in internal controls in the Quick Pay Vouchering System concerning the separation of critical duties and circumvention of controls over password security.

Receiving Function

SUNY Albany could improve procedures to ensure there is an independent verification of the goods received before authorizing payment. According to OSC Procurement and Disbursement Guidelines, Bulletin No. G-54, agencies should use a central receiving department, when possible. Agencies should also require that someone other than the person who made the initial purchase request receive the goods, and count and inspect items when received. However, SUNY Albany allows departments that have placed orders for goods to directly receive and account for them. We selected a random sample of 13 purchase requisitions and examined supporting documentation. Four of the purchase orders, worth over $8,500, specified delivery of the goods directly to the department that originally ordered the goods, instead of delivery to the central receiving dock. These orders were for supplies and brochures, both appropriate for delivery to the central receiving dock.

In addition, SUNY Albany's central receiving dock procedures do not require the receiving clerks to open, inspect and count all goods received. Eight of the purchases we reviewed, worth over $11,000, lacked an independent count on the receiving report. The receiving department signed and dated the receiving reports, attached the invoices and sent them directly to the purchasing department without indicating the quantity of items received.

SUNY officials believe that their current procedures provide a high level of assurance that the goods they have paid for have been received as ordered and are in good condition. It is their opinion that the intent of the OSC Bulletin is being met.

We agree that certain items that are technical or sensitive in nature may be best delivered to the ordering unit. However, office supplies, general supplies, publications, etc. should be handled through a central receiving process. As stated in the OSC Bulletin, agencies that do not institute proper internal controls over goods received could very well end up paying for goods that were never ordered, or for goods of questionable quality. If the same person controls the full operation, the stage may be set for collusive arrangements.

Quick Pay Transactions

OSC provides for voucher payment using the Quick Pay Vouchering System to allow State agencies to process invoices more efficiently. SUNY campuses can use Quick Pay to process invoices for $1,000 or less. With Quick Pay, SUNY campuses first enter vouchers on the SUNY Central Accounting System. After that, campus staff access the OSC computer through a means of electronic transfer, referred to as Gateway, to transmit the voucher data to the State Accounting System. Designated campus staff can then access the Quick Pay System to certify the vouchers for payment. OSC then pays the vendor, sometimes as soon as the next day.

We found that SUNY Albany has not established adequate controls over access to Quick Pay. For example, OSC Accounting Bulletins state that individuals who perform data entry for Quick Pay transactions cannot also certify Quick Pay transactions. However, we found that SUNY Albany's primary Quick Pay certifier is also authorized to enter Quick Pay transactions. Therefore, the potential exists for this individual to certify inappropriate payments.

SUNY Albany should also comply with procedures over the security of Quick Pay password access. Quick Pay Policies for Security concerning password controls state that any password that is not used for 30 days will expire in another 30 days unless changed by the user. This control is designed to help prevent unauthorized access. However, we found that on one occasion, SUNY Albany officials requested an employee, who was out on extended leave, to certify 16 transactions worth about $6,000. Officials stated that they did this to ensure the certified password did not expire. However, OSC's Security Unit told us that the process of renewing an expired password requires only about five minutes.

While all the above transactions appeared reasonable, SUNY Albany should consistently follow OSC security procedures to reduce the risk of unauthorized access to the Quick Pay system.

Recommendations

4. Provide for the independent verification and count of all merchandise delivered to the campus.

5. Adopt management controls to ensure adequate separation of duties for the Quick Pay Vouchering System.

6. Deactivate Quick Pay passwords for employees who are out on extended leave.

Cash Controls

We noted that control improvements could be made over cash collected at remote locations, advance accounts, and Income Fund Reimbursable (IFR) accounts established by SUNY Albany.

Cash Collections

SUNY Albany generally receives all cash payments through the Bursar's Office, but also has 24 remote locations which receive approximately $1.8 million in cash annually. A recently completed audit of internal controls over cash collections at remote locations of selected SUNY campuses, which included SUNY Albany (Report 94-S-27, issued in August 1994), reported that certain fundamental controls, such as adequate separation of duties and use of restrictive endorsements on checks, were not in place at some of the remote locations.

We reviewed the controls in place over cash collections at three SUNY Albany remote locations: the Office of Bus Services (Bus Services), the Registrar's Office and the Psychological Service Center (Center). Since we had visited two of these sites (Bus Services and the Registrar's Office) during the recent audit, we also determined whether SUNY Albany had taken steps to implement the recommendations contained in that report.

We found that SUNY Albany has implemented, or is in the process of implementing, the recommendations we made with regard to cash controls at the Registrar's Office and Bus Services. However, we also found the same kinds of control weaknesses at the Center that our prior audit had found at the Bus Services and Registrar's Office. We believe that these weaknesses are likely to exist at the other remote locations that have not been audited. To ensure that effective controls are in place at all its remote cash collection sites, SUNY Albany should take the following actions: establish comprehensive campus-wide guidelines and procedures for the control over cash receipts; determine the extent of control weaknesses at each site; and conduct cash counts at these sites on a periodic basis to determine whether controls are working as intended.

OSC's Rules and Regulations state that agencies should establish the following controls over cash receipts:

- cash receipts should be promptly recorded and deposited;
- checks should be endorsed "For Deposit Only" as soon as practical after receipt;

- receipts should be sequentially issued and accounted for;
- receipts should be reconciled daily and any discrepancies resolved;
- receipts should be deposited at least weekly;
- cash must be adequately protected prior to deposit; and,
- change funds should be properly accounted for.

We found that these controls were not in place at the Center, which had reported cash receipts totaling over $40,000 during the year ended July 31, 1993. For example, the Center does not transmit cash collections to the Bursar's Office promptly. The cash collected for the period ended March 23, 1994 was not sent to the Bursar's Office for deposit until April 15th, 22 days after preparing the transmittal form. Likewise, the cash collected for the periods ending April 28, 1994 and May 17, 1994 was not sent to the Bursar's Office for deposit until May 24, 1994, 30 and 6 days, respectively, after preparing the transmittal form.

We also found that receipt forms are not adequately accounted for or used properly and payments made by check are not adequately processed. The Center does not use receipts with a carbon copy and the information recorded on the receipt and provided to the customer is not retained by the Center. As a result, the receipts cannot be used to verify that all amounts are properly recorded as received. Further, receipts are not issued sequentially and unused or voided receipts are not properly accounted for. We found that receipts were issued from a new receipt book before all the receipts from the old book were issued, and that some unissued receipts were simply discarded. In addition, checks are not restrictively endorsed at the time of receipt, but are endorsed at the end of the day or the next day. Further, staff do not verify that checks are properly completed by the customer. We noted that the Bursar's Office returned a check to the Center because the check was not signed by the customer.

As a result of the above control deficiencies at the Center, SUNY Albany has little assurance that all cash is recorded as received and is adequately safeguarded and remitted to the Bursar's Office for deposit. Although the cash shortages we found were not material, there was no indication of any investigation into these discrepancies by SUNY Albany staff.

The Internal Control Act of 1987 requires agencies to establish and maintain internal control guidelines for cash collections. We found that SUNY Albany has established only very general campus-wide guidelines and relies on each remote location to develop more comprehensive controls over cash collections. SUNY Albany officials maintain that they have complied with the Internal Control Act, since they have established and maintained a system of internal controls and a program of internal control review to identify and correct weaknesses. However, we believe comprehensive campus-wide cash collection guidelines are necessary to ensure that cash receipts are adequately recorded and safeguarded at all remote locations.

Advance Accounts

SUNY Albany maintains four advance accounts with total authorized amounts of $135,650. SUNY Albany uses advance accounts to provide change, purchase goods which cost less than $250, advance funds to employees and for other special purposes. We reviewed the controls in place over the four advance accounts and found that, in general, SUNY Albany complies with OSC's guidelines and requirements. However, we identified the following area where SUNY Albany could improve controls over these accounts.

Section 102 of the State Finance Law requires agencies to transmit to the State Treasury, for credit to the General Fund, all unpaid checks that are outstanding over three years. We determined that, contrary to the State Finance Law, SUNY Albany credits these funds to the SUNY Income Fund in accordance with procedures issued by SUNY Central Administration. For example, over $8,000 was deposited in a SUNY Albany income fund in March 1994 as a result of stop payment orders placed on outstanding checks from three of the advance accounts. Also, over $7,700 was deposited in the same fund in June 1993 as a credit from outstanding student refund checks.

IFR Accounts

SUNY Albany has 208 Income Fund Reimbursable (IFR) accounts. IFR accounts are established by individual SUNY campuses to enable them to account for the fees they charge for certain services. The fees generated are then used to offset the costs of providing the services.

We selected a sample of nine IFR accounts to determine if all services were appropriately billed and revenues collected. We found that all services provided were billed appropriately, but that some improvements could be made in collecting revenues.

SUNY Albany's IFR procedures manual states that when amounts owed are unpaid over 30 days, dunning letters should be issued and no further services should be given to the customer. However, we found that SUNY Albany does not always follow the procedures manual: for two of the nine IFR accounts sampled, SUNY Albany did not send dunning letters or discontinue services to customers with unpaid amounts over 30 days. One IFR account had amounts owed since 1982 totaling $37,500 and another account had amounts owed for services provided since 1991 totaling $1,240.

Recommendations

7. Develop comprehensive campus-wide written cash control guidelines and procedures.

8. Ensure that remote collection locations establish controls over cash receipts in compliance with the Office of the State Comptroller's Rules and Regulations.

9. Ensure that cash controls are adequate at each location which receives cash by periodically reviewing controls and procedures at each location.

10. Issue dunning letters and discontinue services for IFR accounts unpaid over 30 days.

To SUNY Central:

11. Advise campus officials to deposit the proceeds of stop payment orders placed on checks issued from the advance accounts into the State General Fund, as required by the State Finance Law.

Computer Center Operations

SUNY Albany's Office of Computing and Network Services oversees the SUNY Albany Computer Center (Computer Center). The Computer Center is responsible for maintaining the IBM Mainframe System (Mainframe) that supports a total of 17 administrative systems for end users such as faculty, staff and students. Since SUNY Albany's faculty and staff use these systems to access data necessary to carry out daily functions, these systems must remain available for the continued operation of SUNY Albany. Therefore, SUNY Albany should have plans for continued computer processing should an event occur that damages or destroys computer processing resources. Such plans, called contingency plans, provide for an orderly and timely recovery of the critical administrative systems in case of a disaster.

In prior audits reports (Report 84-S-8, issued in 1984 and 86-S-137, issued in 1986), we have recommended that SUNY Albany develop a written disaster recovery plan that specifies critical processing applications and provides for a back-up processing site. In response to these recommendations, SUNY Albany developed a "Computer Services Center IBM/MVS Disaster Contingency Plan" (Plan) for the Mainframe, effective January 14, 1994, which is divided into three sections: risk containment, back-up and re-entry.

We examined the Plan and discussed its contents with SUNY Albany officials. We found that, although SUNY Albany has made progress by developing a contingency plan, additional improvements could be made. One component of a contingency plan is the identification of critical applications and how these applications would continue should a disaster occur. However, we found that the Plan does not identify those critical applications. The Plan simply lists all the Mainframe's administrative systems, without distinguishing the critical applications from the less important ones. Furthermore, SUNY Albany has only partially tested the Plan to determine whether it would be effective if a disaster occurred. Conducting tests on a developed plan maximizes recovery capability by ensuring that the measures in place will, in fact, function as planned.

Recommendations

12. Improve the current contingency plan to provide for an orderly and timely recovery of the administrative systems if a disaster impacts on computer processing resources. The contingency plan should include the identification of critical applications.

13. Fully test the developed contingency plan to ensure that it would allow for the recovery of critical computer applications.

Major Contributors to This Report

David DeStefano
Frank Houston
Seymour Peltin
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February 22, 1995

Mr. Robert H. Attmore
Deputy Comptroller
Office of the State Comptroller
The State Office Building
Albany, New York 12236

Dear Bob:

In accordance with Section 170 of the Executive Law, we are enclosing the comments of the State University of New at Albany and SUNY System Administration regarding the draft audit report on Financial Management Practices, State University of New York at Albany (94-S-85).

Sincerely,

Bill

William H. Anslow
Senior Vice Chancellor
for Finance and Management

Enc.

Appendix B

Recommendations (page 5)

(OSC) 1. Improve controls over deletions from the payroll so that paychecks are not issued in error.

(SUNYA) 1. The State Comptroller's report states that their previous audit, conducted in 1989, recommended improvement in procedures to control paychecks. The report notes that we have demonstrated improvement in controls over payroll additions. In point of fact, we have also demonstrated similar improvement in payroll deletions, especially with regular State employees.

A significant portion of the returned checks cited in this report were for Graduate and Teaching Assistants (GA/TA's). As a matter of policy, the GA/TA payroll process was dramatically changed since the previous audit, and those changes created a condition that lends itself to the occasional necessity to return paychecks. Several factors contribute to this group of employees being prone to the issuance of checks that have to be returned, including: (1) no lag payroll, which is much different than the payroll process for all other State employees; (2) timing issues that require placement of GA/TA's on the payroll before the actual commencement of services; (3) unusual circumstances such as students taking ill, with no "sick leave" to cover the absence; (4) students with Fall/Spring appointments simply not returning to school after the semester break. In almost every other case, the issuance of a check in error related to the simple failure of a department to notify the Office of Human Resources of an employee termination on a timely basis.

The Campus does view the issuance of paychecks that are not fully due and owing to employees as a serious matter. Since the previous audit, the Office of Human Resources has issued strongly worded bulletins to remind departments of the importance of timely notification to that office when employees have resigned, so that appropriate action may be taken to remove them from the payroll. Such a memorandum will be reissued. In addition, we have worked informally on an ad hoc basis with departments who chronically submit late paperwork. We will implement a formal procedure that serves to notify the department and appropriate administrators when a departmental error causes such a condition.

(OSC) 2. Improve the sick leave monitoring system to identify patterns of use and implement procedures to curb potential sick leave abuse.

(SUNYA) 2. The University acknowledges its responsibility to correct such sick leave abuse as exists. In that respect, we will explore the feasibility of: (a) modifying our formal, computerized monitoring system to become day and date sensitive; and (b) studying the potential of utilizing the newly-designed SUNY Central Time Accounting module for this purpose. We will also implement follow-up procedures to assure that, in cases where counseling and the requirement to provide medical documentation have not proven effective in correcting abusive behavior, further action is taken.

(OSC) 3. Ensure that all overtime is necessary.

(SUNYA) 3. The Office of Human Resources will work with the Budget Office to prepare a directive to each Dean, Director and Department Chair articulating the need for increased oversight in managing the assignment and completion of tasks on an overtime basis.

(SU) 1-3. We agree with the recommendations and the Campus responses.

Recommendations (page 8)

(OSC) 4. Provide for the independent verification and count of all merchandise delivered to the campus.

(SUNYA) 4. We believe there are additional factors to consider associated with the University's receiving and payment authorization procedures.

The report refers to Bulletin G-54 as requiring the campus to establish a central receiving function to ensure items are properly verified before payment is made. We maintain that our current process is consistent with Bulletin G-54 in that the Bulletin states that "If possible, you should have a central receiving location that is separate..." and "If possible, the goods should not be delivered to the person making the initial request..." We believe that it is "not possible" for the University to use central receiving in a receiving/inspection mode as the auditors suggest. The National Association of College and University Business Officers College and University Business Administration Manual agrees with the University, citing "In the college or university environment, because of the extremely wide range of goods received and the sometimes impossibly difficult task of performing quality and/or functional inspections on all of them, the 'material forwarding' (central receiving) type of receiving function is typically provided....If the receiving function is of the "material forwarding" variety, it is not unusual to find situations in which it deducts value, instead of adding it. For example, overnight or priority parcels can actually be delayed by processing. In these cases, because delay has a negative customer service value, the institution would do better to require rapid delivery services to deliver directly to addresses and bypass central receiving. The cost of central receiving in terms of personnel, material-handling equipment, and facilities can be high. The cost of receiving inspection, because its processes are more complicated and labor-intensive, can be much higher. In both cases, the chief financial or business officer should make sure that the benefits are in proportion to the costs."

The University does use central receiving processes for a good deal of the dollar value of items received by the campus. For example, construction type materials and supplies, paper, cleaning, etc., used by the plant department are stored in a central warehouse and are received centrally by the University. Likewise, all computer equipment--personal computers, printers, etc.--is received through our Educational Communications Center, tested, and then delivered to departments. Other items--office supplies, general supplies, publications, lab supplies--are delivered directly to the departments as noted in the audit report. However, for each item received either through central receiving or through the individual departments, a merchandise received form is submitted by the department to the Accounting Department. This form is signed by the individual who received the item(s), specifies if the item(s) were received in the quantity and style requested on the requisition/purchase order, and that the items were received in acceptable condition. The merchandise received form serves as acknowledgment that the individual signing the form accepts responsibility for accepting those goods.

Because of the audit inquiries, the University reevaluated the use of central receiving when developing a response to the initial preliminary findings. However, we again concluded that it is not fiscally feasible or efficient. The issues noted above were again considered and it was estimated that an additional eight FTE would be needed to staff a receiving/inspection unit. In addition to the cost of the eight FTE, we also saw the increasing number of technical and specific items ordered by departments which would not be identifiable by receiving staff, delivery delays, and the risk of voiding equipment warranties, as being detrimental to University operations.

We believe that in a complex setting such as the University, direct receipt of items by departments is not only unavoidable, but is desirable in some cases. We strongly believe the procedures that are in place for ordering and certification of items being received as ordered and in good condition provide a high level of assurance that the goods being paid for are being done so appropriately and that the intent of the OSC Bulletin is being met.

(SU) 4. We agree with the Campus response.

(OSC) 5. Adopt management controls to ensure adequate separation of duties for the Quick Pay Vouchering System.

(SUNYA) 5. Responsibilities have been reassigned within the Accounting office to ensure that the person certifying Quick Pay system vouchers has no responsibility for entering payment transactions.

(OSC) 6. Deactivate Quick Pay passwords for employees who are out on extended leave.

(SUNYA) 6. We agree.

(SU) 5,6. We agree with the recommendations and the Campus responses.

Recommendations (page 12)

(OSC) 7. Develop comprehensive campus-wide written cash control guidelines and procedures.

(SUNYA) 7. A comprehensive Financial Procedures Manual was issued by the University in September, 1994. The Manual specifies detailed procedures for Income Fund Reimbursable billing and collection, project collections, deposit of collections, change funds, return of IFR checks, adjustments to billed amounts and reconciliation procedures for remote campus collection sites. We believe that the Manual sets forth the basic controls for projects to bill and collect. It should be noted, however, that because of the various types of activities carried out by the campus, it is not possible in one document to specify all controls necessary for each of the cash collection areas to use. Each area is unique and has special needs regarding how the funds are handled to fully ensure adequate protection over the funds. To meet this need, the campus pricing study program will be expanded to include an evaluation of the billing and collection efforts carried out at the IFR program sites to ensure appropriate procedures are in place to provide adequate protection over the assets associated with the program.

(OSC) 8. Ensure that remote collection locations establish controls over cash receipts in compliance with the Office of the State Comptroller's Rules and Regulations.

(SUNYA) 8. The combination of the Manual and the expanded pricing program should ensure that remote locations have been adequately instructed regarding cash billing and collection procedures and policies.

(OSC) 9. Ensure that cash controls are adequate at each location which receives cash by periodically reviewing controls and procedures at each location.

(SUNYA) 9. The expanded pricing program will provide periodic reviews of cash controls at locations throughout the campus. Annual budgetary reviews and monitoring of deposits by the Collections and Accounting Offices will also add to the monitoring of appropriate cash controls.

(OSC) 10. Issue dunning letters and discontinue services for IFR accounts unpaid over 30 days.

(SUNYA) 10. The Financial Procedures Manual specifies that project directors should take appropriate action to follow-up on outstanding receivables and not provide further services to clients who have a past due invoice. The accounting office will make an extra effort through monitoring of outstanding receivables and the expanded pricing project to ensure that these guidelines are adhered to by project directors.

(SU) 7-10. We agree with the recommendations and the Campus responses.

(OSC) 11. Advise campus officials to deposit the proceeds of stop payment orders placed on checks issued from the advance accounts into the State General Fund, as required by the State Finance Law.

(SU) 11. The Office of the University Counsel and Vice Chancellor for Legal Affairs is reviewing this issue with legal staff of the Office of the State Comptroller.

Recommendation (page 14)

(OSC) 12. Improve the current contingency plan to provide for an orderly and timely recovery of the administrative systems if a disaster impacts on computer processing resources. The contingency plan should include the identification of critical applications.

(SUNYA) 12. It should be noted that "criticality" is difficult to define. Many of our databases, for example, are closely linked and are available to different applications of varying critical nature. Perhaps more importantly, there is a time-of-year (or time-of semester) effect that is distinctive in educational environments. For example, failure of an admissions system in early to mid-spring could be disastrous, but relatively minor the balance of the year, and similarly for many other applications.

(OSC) 13. Fully test the developed contingency plan to ensure that it would allow for the recovery of critical computer applications.

(SUNYA) 13. Balanced against the competing demands for resources, especially in this budget climate, we regard it as an acceptable risk not to expend at this time the funds that this testing would require. Nonetheless, we will continue to refine our contingency plan to reduce the potential risks to the campus and will also consider various aspects of the testing protocol with emphasis on security and cost efficiency.

(SU) 12,13. We agree with the recommendations and the Campus responses.