

---

---

**Thomas P. DiNapoli  
COMPTROLLER**



<b>Audit Objective.....</b>	<b>2</b>
<b>Audit Results – Summary .....</b>	<b>2</b>
<b>Background.....</b>	<b>3</b>
<b>Audit Findings and Recommendations.....</b>	<b>4</b>
System Administration Oversight of Foundations.....	4
Investment Policies of Foundations..	5
Expenditures of Foundations .....	6
<i>Recommendations.....</i>	<i>8</i>
<b>Audit Scope and Methodology.....</b>	<b>8</b>
<b>Authority .....</b>	<b>9</b>
<b>Reporting Requirements.....</b>	<b>9</b>
<b>Contributors to the Report .....</b>	<b>9</b>
<b>Exhibit A - Summary of Expenses and Assets of 15 Selected Campus Foundations for the 2005-06 Year.....</b>	<b>10</b>
<b>Appendix A - Auditee Response..</b>	<b>11</b>

**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

---

**STATE UNIVERSITY OF  
NEW YORK**

**OVERSIGHT OF CAMPUS-  
RELATED FOUNDATIONS**

**Report 2006-S-96**

## AUDIT OBJECTIVE

Our objective was to determine if the State University of New York's System Administration is providing sufficient oversight of campus-related foundations.

## AUDIT RESULTS - SUMMARY

The campuses of the State University of New York (SUNY) contract with campus-related, not-for-profit foundations to accomplish fundraising which supports the educational, research and public service mission of the campuses. The foundations provide integral support to campus programs. There were 30 campuses with foundations at the time of our audit. SUNY System Administration oversees all SUNY operations, including the foundations. This oversight is accomplished primarily by issuing operational guidelines that foundations must adhere to, approving contracts between campuses and their foundations, monitoring foundations' financial statements and the accompanying reports from certified public accountants, and regularly auditing the operations of foundations.

We found that SUNY System Administration oversight of campus foundations is primarily done through the Office of the University Controller (OUC) and the Office of the University Auditor (OUA). However, we concluded that the oversight performed by OUC and OUA needed to be improved to be sufficient to ensure that the foundations conduct their activities exclusively for the benefit of campuses and in accordance with SUNY and campus policies.

We found that OUA's auditing of the foundations was limited in recent years. No foundation audits were issued during 2005 and 2006, and two audits were issued in 2004. SUNY officials explained that audit resources

were dedicated to higher risk areas during this period. We recommended that the OUA consider our audit findings and update its risk assessment to help ensure that all campus foundations are audited within reasonable time frames, considering available audit resources and overall audit priorities. (See p. 4)

We further found that OUC did not always ensure that each campus had an active contract with its foundation. During the period July 1, 2004 through December 31, 2006, we found that nine foundations had been operating without an active contract for periods ranging from eight months to five years. Allowing foundations to operate for prolonged periods of time without active contracts increases the risk that foundations may not operate in a manner consistent with SUNY System Administration or campus policies. In addition, we found that OUC did not maintain adequate documentation supporting that its oversight included analysis of foundation financial statements and reports from foundations' certified public accountants. (See pp. 4-5)

When we examined the investment and expenditure policies of a sample of 15 foundations, we found that the policies for seven of the foundations lacked certain items required by the SUNY Board of Trustees. For example, the policies of three foundations did not address the processes for selecting investment managers who provide guidance on the foundations' investment programs. In addition, when we visited five foundations, we tested 343 expenditures totaling about \$2.8 million and found the foundations' business offices usually, but not always, obtained the necessary supporting documentation prior to authorizing payments. As a result, we could not readily determine if certain expenditures were appropriate for foundation business purposes. Subsequently,

foundation officials provided explanations and records supporting the business nature of these disbursements. However, support that is readily available provides the best assurance of the propriety of transactions. (See pp. 5-7)

We believe that the weaknesses we identified with foundation investment policies and disbursements support the need for more effective oversight by the OUC and the OUA. We made eight recommendations for strengthening System Administration oversight and for improving foundation internal controls. (See p. 8)

In their response to our draft audit report, SUNY officials agreed with our report's recommendations, and they indicated the steps that have been and will be taken to implement them.

This report dated September 17, 2008, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

SUNY's campus-related entities include not-for-profit foundations established to support fundraising and to enhance the educational, research and public service missions of the campuses. The foundations provide integral support to campus programs. For example, foundations receive and manage gifts from alumni and other benefactors and make gifts available to the campuses for approved programs and activities. The foundations are overseen by boards of directors composed primarily of private citizens, senior campus

officials, and faculty. The role of the boards is to ensure that fundraising is conducted in a legal and ethical manner and to provide overall direction for foundation operations. SUNY's 30 campus foundations had net assets totaling about \$840 million at the end of the 2005-06 fiscal year.

SUNY System Administration oversees all SUNY operations, including campus foundations. System Administration uses a model contract to govern the relationship between campuses and the foundations. The model contract includes certain guidelines that the foundations must follow and it specifies that foundation activities must be for the exclusive benefit of the campuses in accordance with SUNY and campus policies. The contracts must be for a stated period of time not to exceed ten years.

In 2001, SUNY created a Task Force to examine the roles and relationships of legally independent corporate entities, including foundations, which operate in association with SUNY campuses. The Task Force made recommendations for SUNY's Board of Trustees to consider for improving accountability, investment practices, and fiscal standards for foundations. In response, SUNY's Board of Trustees required that guidelines, for investments and certain other major functions of the foundations, be included in the model contracts between the campuses and their related foundations. System Administration relies on the foundations to develop and adhere to their own guidelines and policies for other areas of financial-related operations not specifically addressed by the guidelines in the model contracts.

Traditionally, the Office of the State Comptroller (OSC) audited the SUNY campus foundations when it audited individual campuses under its constitutionally

provided audit authority. However, in 1983, SUNY System Administration requested that OSC suspend its audits of campus foundations. Officials explained that they had the means to provide appropriate oversight, including auditing, of foundations. OSC agreed with this request indicating that it would periodically audit System Administration's oversight of foundations.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

SUNY System Administration has established oversight of the campus foundations primarily through the activities of its Office of the University Auditor (OUA) and its Office of the University Comptroller (OUC). (Certain oversight is also provided by System Administration's Office of Philanthropy and the University Counsel.) Based on our review, we concluded that the oversight provided by the OUA and the OUC should be improved to help ensure that SUNY complies fully with the 1983 agreement, with particular regard to certain financial-related matters at the foundations. When we examined financial-related policies, procedures and practices at selected campus foundations, we identified weaknesses that supported the need for improved oversight. We made several recommendations for improving the oversight roles of the OUA and the OUC and for strengthening internal control for all foundations.

---

### *System Administration Oversight of Foundations*

---

Two units within SUNY System Administration, the OUA and the OUC, have specific oversight responsibilities for foundations. The OUA provides oversight through periodic audits of the operations of the foundations, and the OUC provides

oversight by monitoring foundation contracts and by reviewing their financial statements. We found that the roles of the OUA and the OUC need to be improved to provide sufficient oversight of campus foundations.

### **The Office of the University Auditor (OUA)**

Having the OUA regularly audit campus foundations increases the assurances that necessary financial-related controls are in place and that foundations operate in accordance with SUNY System administration and campus policy. From January 2002 through December 2006, the OUA's annual foundation-related audit activity varied considerably. The OUA issued ten audits of campus foundations in 2002 and four audits in 2003. In 2004, the OUA issued two audits of foundations, and in 2005 and 2006, no foundation audits were issued. Thus, the OUA's foundation-related audit activity was limited during the three years (2004 through 2006) leading up to the initiation of our audit fieldwork. Consequently, based on the limited number of foundation reviews conducted from 2004 through 2006, we question whether SUNY System Administration provided sufficient audit coverage of the foundations (consistent with the 1983 agreement with OSC that suspended OSC's reviews of the foundations) during this period.

SUNY System Administration officials responded that they did not conduct foundation audits in 2005 and 2006 because the OUA had other higher priority risks to audit within SUNY. Moreover, at the outset of our audit, SUNY Administration officials indicated that the OUA planned four foundation audits in 2007. (SUNY officials later advised us that the four audits were initiated between January and May 2007.) We recommend that the OUA consider our

audit findings and update its risk assessment to help ensure that all campus foundations are audited within reasonable time frames, considering available audit resources and overall audit priorities.

#### The Office of the University Controller (OUC)

The OUC's oversight for foundations includes ensuring that each of the 30 foundations has an active contract with its campus. We found that OUC did not always accomplish this objective. During our audit period of July 1, 2004 through December 31, 2006, we determined that nine foundations operated without contracts. The period of time during which contracts were not in place for these nine foundations ranged from eight months to five years, including six that operated more than two years without contracts.

One of these six had been in contract negotiations since 2002 and still lacked a contract as of December 31, 2006. Another foundation operating without a valid contract during the audit period had submitted a contract to System Administration, but the contract was lost in processing and was never finalized. System Administration realized and responded to this problem 29 months later. Allowing foundations to operate without contracts for extended periods increases risks that foundations may not be conducting their operations in accordance with SUNY requirements. (Note: Subsequent to our audit fieldwork, SUNY advised us that all of the foundations cited in our report [that lacked active contracts] now have contracts with their related campuses, with the exception of one foundation. Officials added that SUNY is negotiating with that foundation and is working toward a signed agreement.)

OUC also oversees foundations by receiving copies of their annual financial statements and

by requiring these statements to be audited by independent certified public accountants. OUC officials informed us that these statements are compiled by System Administration for inclusion in SUNY's financial statements. In addition, we were informed that OUC examines the foundation financial statements to detect and follow up on any significant year-to-year variances. We were also informed that OUC reviews the management letters provided to the foundation by their independent certified public accountants. However, we were not able to confirm that OUC had sufficiently accomplished its foundation oversight because OUC does not document its examination of the financial statements, its follow-up on variances or its review of management letters. SUNY officials responded that they will use a new Financial Statement Review Checklist to document the analysis and monitoring of foundations' financial statements in the future.

Since the oversight of foundations by OUC and OUA was not as strong as it could have been, we further reviewed financial related activities of the foundations. We identified certain weaknesses that SUNY needs to address. These matters are discussed in the remaining sections of this report.

---

#### *Investment Policies of Foundations*

---

SUNY's Board of Trustees' guidelines provide investment criteria for foundations to include in their policies. The guidelines advise foundations to develop, administer and communicate a policy on managing endowment funds, allocating assets, selecting investment managers and developing spending formulas. We reviewed the policies for 15 of SUNY's larger campus foundations (in terms of net assets) for the 2005-06 fiscal year. (See Exhibit A.) Together, these foundations had net assets totaling almost



\$726 million, about 85 percent of all foundation assets. We found the policies at seven of the fifteen foundations did not address certain requirements of the Board of Trustees' guidelines as follows:

- The policies of the foundations at four campuses did not include proper asset allocation schedules or specific requirements for various classes of assets. (At one of these campuses, a consultant had been hired to review investment practices and recommended an asset allocation policy to the foundation board. This recommendation was under review at the time of our audit.);
- The policies of the foundations at three campuses did not address the processes for selecting investment managers who provide guidance on the foundations' investment programs and;
- The policies of the foundations at two campuses did not include information on spending formulas.

Also, we noted that several foundations required investment committee members to sign a "conflict of interest" disclosure statement to help ensure the propriety of their investment decisions. We recommend that the SUNY Board of Trustees include this requirement as part of its guidelines that all foundations include in their formal investment policies.

---

#### *Expenditures of Foundations*

---

Although the SUNY Task Force on foundations had recommended the development of formal guidelines regarding expenditure control, the SUNY Board of

Trustees did not adopt this recommendation. Nevertheless, a best practice would be that foundations establish comprehensive controls including requirements for complete and accurate documentation supporting the incurrence and appropriateness of all expenditures.

We found that each of the 15 foundations (from our previously discussed sample on investments) had guidelines relating to documenting expenditures. However, the comprehensiveness of the guidelines varied significantly from campus to campus. For example, the guidelines of 10 of the foundations did not clearly specify that their credit card transactions must be limited to only foundation-related business needs. In addition, the expenditure guidelines at four of the foundations did not establish formal controls over travel expenses. (Officials at three of these foundations indicated that foundation staff was expected to adhere to State employee travel guidelines.)

We visited the foundations at five campuses to test compliance with the foundations' expenditure control guidelines. While we found that each of the foundations required a business purpose to support expenditures, we also found that the documentation (maintained by foundation business offices) supporting the business need for expenditures often needed improvement.

Specifically, we tested the supporting documentation on file at the five foundations for 343 expenditures totaling about \$2.8 million (e.g., credit card transactions, travel vouchers, etc.). In most instances, the supporting documentation of a business purpose accompanied an authorized request to the business office to make a disbursement. However, for 120 disbursements (totaling \$365,000), we found that adequate supporting documentation did not accompany the

authorized payment requests that were submitted by program officials to foundation business offices. In these instances, foundation officials had to obtain the supporting documentation from various locations, including other foundation and multiple campus (SUNY) program offices.

For example, when we reviewed business office files for the sampled expenditures we noted that:

- A foundation spent \$1,221 for a dinner. The documented purpose of the expenditure was “reimbursement for a dinner for a benefit held by a well known musician.” A list of attendees was not attached. (Officials later explained that the dinner was for donor solicitation and the food was for a band to be a part of the event.)
- A foundation spent \$684 for a September 2005 dinner for 25 people, but there was no supporting documentation indicating the relationship of the dinner to foundation business purposes. (Officials later indicated that the dinner was for donors and included a distinguished author sponsored by a lecture series.)
- A foundation spent \$1,740 for an event for 45 people at a local restaurant, but the available documentation only explained that that this was for an educational exercise at a banquet. (Officials later explained that the event included an educational program, addressing hydrogen sulfide poisoning, for campus technicians. Officials also provided a separate invoice supporting the cost of food.)

If the foundations’ business offices do not obtain and retain sufficient supporting documentation, there is reduced assurance that foundation expenditures are appropriate and support the business needs of the foundation. In response to our findings, officials at each of the foundations that we visited explained that they were aware of the transactions and events that we cited, and they personally knew that development officers were spending funds for appropriate purposes. Therefore, they did not always require detailed supporting documentation to be readily available at the foundation business offices. Moreover, when we reviewed additional supporting documentation that was subsequently obtained from program offices, we found that it generally justified the business purpose of the expenses in question. We recommend that SUNY emphasize the need for foundation business offices to have adequate supporting documentation, which accompanies all requests for payments, prior to payments being made.

We also note that officials from several foundations indicated to us that they would modify their policies and procedures to require additional documentation for expenditures. For example, one foundation issued a policy statement requiring supporting documentation for event expense reimbursements and credit card purchases. Vouchers for this foundation must now be accompanied by a statement of purpose, list of attendees, and program brochures. Another foundation was issuing instructions that the basis for disbursements must be documented on check request forms. A third foundation was revising its request for reimbursement form to accommodate a clearer explanation for expenditures. These are best practices that should be considered by all foundations.

In addition, during our field visits, we identified two foundations where a staff person both requested and approved a foundation payment. At one campus foundation, we noted that a person requesting mileage reimbursement also signed the form authorizing the payment. At another campus foundation, we noted that a web developer prepared and approved his own request payment. To maintain effective internal controls, nobody should be able to request and approve his own payments. Someone independent of the person seeking reimbursement should be approving the reimbursement.

### **Recommendations**

1. Have the OUA consider our audit findings and update its risk assessment to help ensure that all campus foundations are audited within reasonable time frames, considering available audit resources and overall audit priorities.
2. Ensure that the OUC executes contracts in a timely manner with the foundations.
3. Ensure that OUC documents its review of foundation financial statements and any follow up steps taken to monitor foundations operations and financial activity.
4. Ensure that all foundations have policies that address all of the areas specified in the guidelines that the Board of Trustees approved for investments.
5. Require all foundation investment committee members to sign a disclosure statement regarding any conflicts of interest with their

responsibilities to the investment committee.

6. Obtain and review the investment and disbursement policies of all foundations. Identify best practices that the foundations could include in their policies.
7. Advise foundation business offices to maintain adequate documentation supporting the business need for all disbursements.
8. Ensure that the foundations cited in the report for combining payment requests and approvals take steps to separate these incompatible duties. Advise all foundations to make sure their internal controls separate these incompatible duties.

### **AUDIT SCOPE AND METHODOLOGY**

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the activities by SUNY System Administration to determine whether it provided sufficient oversight of campus foundations for the period July 1, 2004 through December 31, 2006. We reviewed SUNY's Board of Trustees' guidelines, prior audits of campus foundations by System Administration, and investment and disbursement policies/guidelines of the 15 foundations listed in Exhibit A.

In addition, we also visited five foundations (at the University Centers at Binghamton, Buffalo, and Stony Brook, the Upstate Health Science Center and the College at Purchase) to assess controls over disbursements and policies and procedures for managing investment portfolios. We tested 343 expenditures from these five foundations to



---

determine if the supporting documentation maintained by their business offices was adequate. We also reviewed System Administration procedures for overseeing the contracts between the campuses and foundations, and we verified that current contracts are on file with SUNY. Further, we assessed SUNY's procedures for reviewing financial statement reports and CPA management letters submitted annually by the foundations.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

## **AUTHORITY**

The 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.

We provided draft copies of this report to SUNY officials for their review and formal comments. We considered SUNY's comments in preparing this report and have included them as Appendix A. SUNY officials agreed with our report's recommendations, and they indicated the steps that have been and will be taken to implement them.

## **REPORTING REQUIREMENTS**

Within 90 days of the 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.

## **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include Steve Sossei, Brian Mason, Bill Clynes, Claudia Christodoulou, Brianna Redmond, Ekaterina Merrill, Emily Wood and Sue Gold.

**SUNY Campus Foundations  
Summary of Expenses and Assets  
For 15 Selected Foundations  
For the 2005-06 Fiscal Year**

	<b>Foundation</b>	<b>Expenses *</b>	<b>Net Assets</b>
1	University at Buffalo	\$32,226,895	\$241,842,060
2	Stony Brook	\$30,494,947	\$110,904,134
3	Binghamton	\$19,926,089	\$58,067,822
4	Upstate Health Science Center	\$12,569,281	\$39,860,367
5	Oswego	\$7,698,668	\$5,411,050
6	Purchase	\$7,023,394	\$39,775,571
7	Empire State	\$6,899,975	\$18,261,114
8	Albany	\$5,723,244	\$83,406,657
9	Downstate Health Science Center	\$3,910,198	\$43,412,159
10	Morrisville	\$3,054,214	\$5,945,483
11	Buffalo State	\$2,551,013	\$18,486,234
12	Potsdam	\$2,335,788	\$20,877,540
13	Geneseo	\$1,989,352	\$9,666,438
14	Plattsburgh	\$1,477,119	\$14,047,766
15	Fredonia	\$1,445,125	\$15,934,451
	<b>Totals</b>	<b>\$139,325,302</b>	<b>\$725,898,846</b>

\* Amounts include disbursements for scholarships, grants, awards, and other student and campus program support, as well as for fundraising and administration.

## APPENDIX A – AUDITEE RESPONSE



### THE STATE UNIVERSITY of New York

**James R. Van Voorst**  
*Interim Vice Chancellor  
for Finance and Business*

*State University Plaza  
Albany, New York  
12246*

*518 443 5105  
fax - 518 433 5483*

*jrv.vanvoorst@suny.edu  
www.suny.edu*

July 28, 2008

Mr. Steven Sossei  
Audit Director  
Division of State Government Accountability  
Office of the State Comptroller  
110 State Street, 11<sup>th</sup> Floor  
Albany, New York 12236

Dear Mr. Sossei:

In accordance with Section 170 of the Executive Law, we are providing our comments to the draft audit report on the State University of New York Oversight of Campus Foundations (2006-S-96). The State University of New York (University) System Administration and Campuses have a responsibility to the public to provide affordable high quality education and campus-related foundations have a significant role in meeting that responsibility. These foundations are separately incorporated, not-for-profit organizations with independent governing boards, and are audited annually by independent CPAs.

The foundations enable the University to achieve and maintain a measure of excellence and to undertake development programs to enhance the University's educational and public service mission. In fact, the foundations have received approximately \$617 million in revenues and support for the University over the past two fiscal years. As recently as December 2007, the Commission on Higher Education endorsed the concept of the New York State Compact under which New York's public university systems "would commit to raising private funds as a permanent source of revenue to support programmatic initiatives."

The Office of the State Comptroller (OSC) has determined that the financial related activities of the foundations were substantially compliant with applicable University guidelines and that the sampled expenditures were appropriate. The University concurs with most of the findings and recommendations in the report and has already made improvements to our processes and controls.

Our specific comments to the findings and recommendations of the report follow.

UNIVERSITY CENTERS AND DOCTORAL DEGREE GRANTING INSTITUTIONS University at Albany • Binghamton University • University at Buffalo • Stony Brook University • SUNY Downstate Medical Center • Upstate Medical University • College of Environmental Science and Forestry • College of Optometry • NYS College of Ceramics at Alfred University • NYS College of Agriculture/Life Sciences at Cornell University • NYS College of Human Ecology at Cornell University • NYS College of Industrial/Labor Relations at Cornell University • NYS College of Veterinary Medicine at Cornell University UNIVERSITY COLLEGES SUNY Brockport • Buffalo State College • SUNY Cortland • Empire State College • SUNY Fredonia • SUNY Geneseo • SUNY New Paltz • SUNY Old Westbury • College at Oneonta • SUNY Oswego • SUNY Plattsburgh • SUNY Potsdam • Purchase College TECHNOLOGY COLLEGES Alfred State College • SUNY Canton • SUNY Cobleskill • SUNY Delhi • Farmingdale State College • Maritime College • Morrisville State College • SUNY Institute of Technology COMMUNITY COLLEGES Adirondack • Broome • Cayuga County • Clinton • Columbia-Greene • Corning • Dutchess • Erie • Fashion Institute of Technology • Finger Lakes • Fulton-Montgomery • Genesee • Herkimer County • Hudson Valley • Jamestown • Jefferson • Mohawk Valley • Monroe • Nassau • Niagara County • North Country • Onondaga • Orange County • Rockland • Schenectady County • Suffolk County • Sullivan County • Tompkins Cortland • Ulster County • Westchester

### **System Administration Oversight of Foundations**

Because of the importance of philanthropy to its mission, the University takes its oversight responsibilities for campus-related foundations very seriously and strives to provide the appropriate level of oversight for all University campus-related foundations. The University's oversight activities include:

- providing guidelines for campus-related foundations,
- verifying compliance with the model contract requirements,
- reviewing the required audited financial statements,
- conducting periodic audits of the foundations,
- providing assistance and guidance to the chief advancement officers,
- requiring foundations to report fundraising information, and
- following up on identified issues.

The University's oversight activities are enhanced by other activities including:

- Oversight and accountability provided by the boards of directors of the foundations,
- The annual financial statements audits of the foundations conducted by independent CPA firms,
- The internal control systems and audit activities of the campuses,
- Oversight of compliance with regulatory requirements of the Charities Bureau of the New York State Attorney General's Office and the Internal Revenue Service, and
- Review and approval by OSC of the contract between each campus and its foundation prior to issuance to the campus.

These activities help ensure that foundations have the necessary internal controls and operate in accordance with University policies and other requirements.

### **The Office of the University Auditor**

The audit questions whether SUNY System Administration fully complied with the 1983 agreement and provided adequate audit coverage of the foundations given the limited number of audits from 2004 through 2006. While there may have been limited audits in certain years, the University notes that 19 audits or almost 2/3 of the foundations were audited in the last 6 years, and maintains that it has conducted periodic audits and met the requirements of the agreement. In addition, the audit of four foundations as part of our 2006-07 audit plan was announced prior to the notification of the OSC audit. This is further evidence of our intent to comply with the agreement to conduct periodic audits.

### **Investments Policies of Foundations**

The campus-related foundations have a combined investment portfolio of approximately \$900 million. These portfolios are managed by highly qualified professional investment managers and are overseen by investment or finance committees whose members are carefully selected based on their background and experience. The foundations have historically experienced positive rates of returns on their investments and in several cases outperformed key benchmarks. The foundations had investment income of approximately \$27 million and net realized and unrealized investment gains of approximately \$92 million for the fiscal year ending June 30, 2007.

The foundations generally have specific practices in place to address the composition of the investment portfolio, the selection of investment managers or funds, spending limits, and reviews of the investment portfolio. While most foundations have their practices documented in written procedures, there are a few cases where certain practices need to be documented in writing. Furthermore, foundations in question are in the process of reviewing their investment policies and will make the necessary changes to ensure all required statements are included.

### **Recommendations**

Recommendation 1 - Have the Office of the University Auditor (OUA) consider our audit findings and update its risk assessment to help ensure that all campus foundations are audited within reasonable time frames, considering available audit resources and overall audit priorities.

SUNY Response –Agree - The University utilizes a comprehensive annual risk assessment process to identify campuses, entities, and areas for audit. The process includes an assessment of the operations of the University and campus-related entities with a goal of utilizing our limited resources on the highest risk areas. The University Auditor has, and will continue to use its risk assessment process to identify audit areas.

Recommendation 2 – Ensure that the Office of the University Controller (OUC) executes contracts in a timely manner with the foundations.

SUNY Response – Agree - The University will continue to work to ensure that contracts are executed in timely manner.

Recommendation 3 – Ensure the OUC documents its review of foundation financial statements and any follow up steps taken to monitor foundations operations and financial activity.



Mr. Steven Sossei  
July 28, 2008  
Page 4

SUNY Response – Agree - The University has, and will continue to analyze the audited financial statements of the foundations on an annual basis to access financial conditions, any unusual activities, and the auditor's opinion. Follow up on any significant management letter issues noted by the independent auditors will also continue to be performed. To enhance this process, the University has developed a checklist to further document its review.

Recommendation 4 – Ensure that all foundations have policies that address all of the areas specified in the guidelines that the Board of Trustees approved for investments.

SUNY Response – Agree - The University requires that all foundations adhere to Board Guidelines on Campus-Related Foundations. The University will follow-up with the foundations to address any known non-compliance.

Recommendation 5 – Require all foundation investment committee members to sign a disclosure statement regarding any conflicts of interest with their responsibilities to the investment committee.

SUNY Response – Agree - In its proposed revision to Board guidelines, the University will be requiring foundations (applicable to directors and any committees thereof) to have a conflict of interest policy, but will not dictate a particular type of policy. This is appropriate since the Board of each foundation should develop a policy based on the particular circumstances and needs of its organization in accordance with the general requirements set forth in State law (Not-for-Profit Corporation Law Sections 715 and 717: disclosure of interests required from directors and duty of loyalty to corporation) and IRS regulations (excess benefit transactions).

Recommendation 6 – Obtain and review the investment and disbursement policies of all foundations. Identify best practices that the foundations could include in their policies.

SUNY Response – Agree – The University has undertaken a review of policies and is preparing to issue a compilation of best practices.

Recommendation 7 – Advise foundation business officers to maintain adequate documentation supporting the business need for all disbursements.

SUNY Response – Agree - The University notes that campus-related foundations do generally maintain the necessary documentation to support expenditures. It should be noted that the foundations are audited annually by independent certified public accounting firms. In addition, the University reminded key individuals of the need for documentation in November 2006 and will issue additional guidance in this area.

---

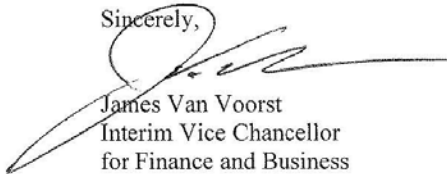
Mr. Steven Sossei  
July 28, 2008  
Page 5

Recommendation 8 – Ensure that the foundations cited in the report for combining payment requests and approvals take steps to separate these incompatible duties. Advise all foundations to make sure their internal controls separate these incompatible duties.

SUNY Response – Agree - The University acknowledges that key duties should be segregated, whenever possible. While the same individual requested the payment and signed the approval line, it should be noted that the Foundation Business Office reviewed the request for completeness, reasonableness, and appropriateness relative to fund purpose and that a manager reviewed the documentation and authorized the payment by signing the check.

Thank you for the opportunity to respond to the audit report. If you have any questions, please contact me at 518-443-5105 or [Jim.VanVoorst@suny.edu](mailto:Jim.VanVoorst@suny.edu).

Sincerely,



James Van Voorst  
Interim Vice Chancellor  
for Finance and Business

Copy: Dr. Clark