December 11, 1998

Dear Dr. Ryan:

Pursuant to the Comptroller’s authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have audited selected financial practices of the College Auxiliary Services, Incorporated at the State University of New York, College at Plattsburgh. Our audit covered the period July 1, 1995 through June 30, 1998.

A. Background

The State University of New York (SUNY) College at Plattsburgh (College) is a college of arts and sciences offering programs at both the baccalaureate and masters level in arts and science, professional studies, and business and economics. During the 1997-98 academic year, the College reported enrollment of about 5,300 undergraduate and 600 graduate full-time and part-time students.

The College Auxiliary Services, Incorporated (CAS) at Plattsburgh is a campus-based, not-for-profit corporation established to provide designated services to the College. CAS operates under a standard contract with SUNY System Administration and the College. The contract specifies the services that CAS will provide to the College and incorporates SUNY guidelines for Auxiliary Services Corporation (ASC) operations. CAS provides food, vending, bookstore, automobile rental, conferencing, identification card, cable television and campus apartment management services. In addition, CAS owns and operates the Valcour Conferencing Center and the Twin Valleys Outdoor Education Center. These two off-campus facilities are for use by the campus community and others.
For the fiscal year ended June 30, 1997, CAS reported revenues of $9.2 million and net revenue in excess of expenses of $221,500. Revenues from food service and the college store account for over $8 million of total CAS revenue.

Recently, the standard contract between SUNY System Administration and the ASCs and the related SUNY guidelines have been revised to delegate greater authority to the campuses and their ASCs to determine the extent to which ASCs will participate in funding campus programs. This change was consistent with the report entitled “Rethinking SUNY” which had been provided to the SUNY Board of Trustees in October 1995. The report called for allowing ASCs to generate excess revenues which could be used to support campus initiatives not funded by the State.

As part of the change in philosophy, SUNY System Administration now provides less control and oversight of ASC activities than it had in the past. For example, SUNY System Administration’s Office of Finance and Business, which is responsible for ASC oversight, has reduced its review of ASC budgets and financial statements. With reduced central oversight, campuses must assume increased responsibility for controlling ASC activities and operations.

B. Audit Scope, Objectives, and Methodology

We audited selected CAS financial practices and internal controls for the period July 1, 1995 through May 31, 1998. We also tested various financial transactions for the fiscal year ended June 30, 1998. Our audit objectives were to determine if CAS financial practices conformed with SUNY guidelines and sound business practices, were supported with adequate internal controls and acceptably reduced any risks to CAS financial viability from activities or services operating at a loss. To accomplish our objectives we interviewed CAS management and staff and evaluated and tested selected controls and related transactions pertaining to CAS’s revenues and expenditures.

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 CAS that are included within our audit scope. Further, these standards require that we review and report on those laws, rules and regulations that are relevant to the CAS’s operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting records and applying such 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 used a risk based approach when selecting activities to be audited. This approach focuses our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability of 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.

C. Results of Audit

Our audit concluded that the CAS generally operated according to SUNY guidelines. However, there is particular need for CAS and the College to continue to focus efforts on monitoring and controlling costs and maximizing revenues of those CAS operations that report annual financial losses. This is important because losses in any particular aspect of CAS operations must be subsidized or offset by those aspects of operations that are profitable. Diminished profitability lessens CAS’s further contributions to the campus community. In the case of the Valcour Conferencing Center and Twin Valleys Outdoor Education Center, operations which appear likely to continue to experience operating losses, we recommend that CAS and the College develop strategic plans that will lead to significant new revenues and/or new program objectives that justify the benefit of these operations to the campus community. In the absence of such efforts, CAS and the College should consider whether maintaining them is worth the benefit derived to the campus community. In addition, we found that CAS revenue and expenditure functions did not provide for the necessary separation of duties and lacked certain other control requirements.

1. CAS Activities Operating at a Loss

Four of CAS’s operations reported losses for the year ended June 30, 1997 as well as for each of the preceding five years. The losses experienced for the year ended June 30, 1997 for these operations are shown in the following chart.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Revenue</th>
<th>Expenses</th>
<th>Net Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valcour Conferencing Center</td>
<td>$92,671</td>
<td>$229,469</td>
<td>$136,798</td>
</tr>
<tr>
<td>Twin Valleys Outdoor Education Center</td>
<td>5,418</td>
<td>27,202</td>
<td>21,784</td>
</tr>
<tr>
<td>Conferences</td>
<td>172,806</td>
<td>192,077</td>
<td>19,271</td>
</tr>
<tr>
<td>Campus Card</td>
<td>59,230</td>
<td>122,616</td>
<td>63,386</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td><strong>$330,125</strong></td>
<td><strong>$571,364</strong></td>
<td><strong>$241,239</strong></td>
</tr>
</tbody>
</table>

The following paragraphs describe these operations and our conclusions in more detail.

**Valcour Conferencing Center**

The CAS purchased the Valcour Conferencing Center (Valcour) property in 1963 for a reported $92,500. According to a recent appraisal, Valcour has a current value of $900,000. The property consists of about 12 acres fronting on Lake Champlain with four structures (Main House, Boat House, Carriage House and Caretaker’s House), docking facilities and two paved
parking lots. The initial plans for the property were to use it for education and recreation purposes and possibly as overflow student housing. At the time, CAS and College officials thought the property had unlimited potential to benefit the College, at a bargain price. Currently, Valcour is used for weddings, banquets, picnics, large and small meetings, overnight lodging, and boat slip rentals. For all activities, except business meetings, the CAS and the College require Valcour users to be affiliated with the campus as either a current or former student, faculty member or campus employee.

The majority of Valcour revenue is earned from rental fees to non-campus groups and commissions on food service sales at Valcour by Marriott Corporation (Marriott). Marriott caters all events at Valcour that require food service. Valcour has required extensive and costly renovation. Since 1989, CAS has paid over $1.3 million in renovations and capitalized repairs to the property. As shown in its certified financial statements, the Valcour property reported operating losses totaling $813,034 for the six fiscal years 1992 through 1997. For fiscal years 1996 and 1997, the operating losses were $144,761 and $136,798, respectively. Since 1994, revenues at Valcour have not been sufficient to offset repair, maintenance, and depreciation costs. In fact, the annual revenue at Valcour has consistently been less than half of the operating costs.

The policy requiring campus affiliation to use Valcour may appear to limit the potential use of the property and, accordingly, restrict income generation. However, when we reviewed Valcour activity for July, August and September 1997, the months when Valcour is most in demand, we found that it was in use every weekend for weddings and reunions and was also used on many weekdays during the period. Therefore, we concluded that CAS does not have much potential to increase revenue by broadening the user base.

We compared the pricing structure at Valcour with other vendors providing similar services in the Plattsburgh area. We concluded that the prices charged by CAS for Valcour use were at least as high or higher than that of other competing vendors in the area. We did observe that boat slip rentals were $26 per foot, or about half the prevailing rate in the area. However, CAS officials pointed out that this rate is justified because their facility does not have some of the amenities offered by other marinas, such as fuel and storage. In addition, CAS plans to increase the rate by $1 per foot for the next several years. We concluded that even if the CAS increased the rental to near market rates it would not have a significant effect on the operating loss.

Valcour appears to primarily benefit those with campus affiliations who hold weddings, faculty who rent boat slips, and small groups which hold meetings. This limited benefit requires other CAS operations to subsidize the Valcour losses. For example, in 1997 CAS had to subsidize $136,789 of Valcour losses. In 1997, CAS support of College programs totaled $313,069. The ability of CAS to further increase this level of support is significantly hampered as a result of the subsidy required by Valcour. Valcour is likely to continue to have operating expenses that significantly exceed revenues given its high maintenance requirements and its limited increased revenue potential.
CAS officials told us that they have had some initial discussion with the College about utilizing Valcour in conjunction with the College’s hotel/restaurant curricula. The plan is to provide students in this curricula with practical experience involved with managing a restaurant. However, these discussions have just begun and no decisions have been made. Regardless of the outcome of these discussions, the cost associated with maintaining Valcour will continue. Given the likelihood of continuing and significant Valcour losses, we believe that CAS and the College ought to develop a strategic plan that will lead to significant new revenues and/or new program objectives that justify the benefit of Valcour to the campus community. In the absence of such an effort, CAS and the College should consider whether maintaining Valcour is worth the benefit derived to the campus community.

**Twin Valleys Outdoor Education Center**

The CAS purchased Twin Valleys Outdoor Education Center (Twin Valleys), a former logging property, in the late 1940’s for development into an outdoor educational center. The property is located about 40 miles from the campus. The property has undergone extensive development. CAS has built cabins, a lodge, outdoor teaching facilities and dining facilities on the property. The property also includes a pond. The facility is used for outdoor education a limited number of months during the year. The CAS makes the property available to campus groups and non-campus users such as local school districts and various groups interested in outdoor activities. Campus and non-campus use appears to be about equal.

The CAS realizes revenue from non-campus groups at the rate of $3.50 per person per day of use. The CAS also realizes a small amount of revenue from logging and renting boats on the pond. For the 1996 and 1997 fiscal years, the CAS received revenues of $3,584 and $5,418, respectively, and incurred operating losses of $20,705 and $21,784, respectively, for Twin Valleys. It appears that Twin Valleys will continue to operate at a loss and require a subsidy. While these losses appear to be manageable, the College and CAS ought to develop a strategic plan that will lead to significant new revenues and/or new program objectives that justify the benefit of Twin Valleys to the campus community. In the absence of such an effort, CAS and the College should consider whether maintaining this operation is worth the benefits derived to the campus community.

**Conferencing**

Planning for educational conferences was formerly a College function. In 1994, the CAS assumed responsibility for the Conferencing operation due to SUNY budget cuts. For the fiscal year ended June 30, 1996, the program had an operating deficit of $42,352, but in the following year CAS cut the deficit to $19,271. CAS plans call for the Conferencing operation to be self sufficient in five years. Attainment of this goal should be monitored to ensure the further availability of funds to support other campus needs.
Campus Card

The Campus Card service provides students with a campus ID card which is used to identify students who purchase meal plans, cash checks and take books out of the library. Some students who choose to leave funds on deposit with CAS can use the card as a debit card permitting them to make campus vending machine, bookstore, campus store and other types of purchases on campus. When a student makes a purchase using the card at any campus location, a percentage of the sale is recorded as Campus Card revenue. During the fiscal year ended June 30, 1997, the CAS recorded a loss of $63,386 for the Campus Card service. However, since CAS management controls the percent of sales that is recorded as revenue, the loss is somewhat arbitrary. CAS officials told us that when they instituted the local debit card, vending commissions and campus store revenues increased substantially. Further, these officials expect the annual losses to decline as use of the card increases. This goal also needs to be monitored.

2. Internal Controls

We evaluated and tested CAS’s system of internal controls over revenues and expenditures. We determined that CAS is missing many of the elements of an adequate internal control system. We also tested a limited number of cash receipt and disbursement transactions processed during the fiscal year ended June 30, 1998. Our testing did not disclose any irregularities. However, we believe that there is risk of irregularities occurring because of the missing controls.

Separation of Duties

In a sound internal control system, activities are separated among a number of employees so that the work of one employee compliments and acts as a check on the work of another employee. As a result, the risk of loss of assets or improper financial record keeping and reporting is minimized. Separation of duties can most readily be achieved when the work load can be shared among a large number of employees. However, CAS has only a limited number of employees. As a result, achieving proper separation of duties is more difficult. In addition, other management priorities may conflict with the goal of separating responsibilities and, therefore, may further increase risk. For example, in order to maximize customer satisfaction, CAS management expects all business office staff to receive cash payments regardless of what other incompatible duties these staff may have. Therefore, separating cash receipts from accounting record keeping, an element of sound internal control, may not be achievable.

The State Comptroller’s cash controls guidelines recommend certain separation of duties that should be present in any revenue and disbursement control system. For example the guidelines provide that:

- cashiers should not have access to accounting records, such as accounts receivable;
-7-

- bank accounts should be reconciled by employees independent of cashiering and bookkeeping functions;
- employees handling disbursements should not have duties relating to cash receipts or reconciling bank accounts; and
- disbursements should be approved by employees independent of payment activities.

The fundamental separations recommended for State agencies in the guidelines would be appropriate to any organization. We found that CAS did not have any of the internal controls suggested by the guidelines. The CAS does have some compensating checks in place to detect errors and irregularities, such as comparing daily cash activity with changes in meal plan activity and comparing cash register totals with campus store bank deposits. However, instead of utilizing a strong system of internal controls, CAS primarily relies on the integrity of its employees to prevent irregularities. The following illustrates certain of the control problems we identified:

- A cashier prepares and distributes cash disbursements.
- The business manager maintains accounts receivable records, prepares bank deposits, receives payments on receivables, reconciles bank accounts and approves disbursements.
- The marketing representative for Valcour and the Conference Director each may receive cash in the course of their duties. In addition, each of these individuals has the capability to create or alter the documents controlling the receipt of that cash, which could allow concealment of a diverted payment.

**Other Control Weakness**

In addition to inadequate separations of responsibilities, we also identified the following weaknesses in the CAS’s control over cash receipts and disbursements that should be addressed:

- The CAS does not have a uniform, press-numbered receipt system. Documentation supporting cash payments vary by operation. Documentation includes such things as brochure pages, rental agreements, and other forms.
- The CAS does not restrictively endorse checks when the mail is opened.
- The CAS uses a dual signature system on checks which is affixed to checks mechanically. However, neither signatory reviews documentation supporting disbursement activity, which negates the purpose of dual signatures.
The CAS rents vehicles to various campus groups. We found that the CAS does not maintain a log to account for mileage associated with each rental of the vehicles. This lack of control could increase the risk for unreimbursed or unauthorized vehicle use. We performed limited testing on four vehicles and found one instance of unexplained use of a vehicle.

**Written Procedures**

Each of the CAS operations has its own unique accounting and record keeping practices. We found that the CAS does not have written procedures for any of its operations, including its revenue and expenditure accounting functions in the business office or the college store. The operations function day-to-day because the employees involved have worked for the CAS for a number of years and know what is expected. However, written procedures are essential to ensure that controls continue to be correctly adhered to and to ensure that controls can be understood and followed in the event of staff turnover or extended absence.

**Recommendations to the College and CAS**

1. *Continue to focus efforts on monitoring and controlling costs and maximizing revenues for CAS operations that report annual financial losses.*

2. *Develop a strategic plan that will lead to significant new revenues and/or new program objectives that justify the benefit of Valcour to the campus community. In the absence of such an effort, CAS and the College should consider whether maintaining Valcour is worth the benefit derived to the campus community.*

3. *Develop a strategic plan that will lead to significant new revenues and/or new program objectives that justify the benefit of Twin Valleys to the campus community. In the absence of such an effort, CAS and the College should consider whether maintaining Twin Valley is worth the benefit derived to the campus community.*

4. *Monitor attainment of the goal of having self sufficient Conferencing service within five years.*

5. *Monitor attainment of the goal of declining Credit Card service costs resulting from increased card use.*

6. *Examine CAS cash receipts and cash disbursement functions and implement separation of duties controls such as those recommended in the State Comptroller’s cash control guidelines wherever possible.*
7. **Strengthen CAS controls by implementing uniform press-numbered receipt forms, restrictive endorsement of checks upon receipt, review of disbursement documentation by those who sign disbursement checks and a mileage log to account for rental vehicle use.**

8. **Develop written procedures in support of revenue and expenditure functions and controls utilized in all CAS operations.**

A draft copy of this report was provided to SUNY System Administration and College officials for their review and comment. Their comments have been considered in the preparation of this report and are included as Appendix A. Officials agree with all our recommendations and they indicate that they are now in the process of implementing them.

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 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.

Major contributors to this report were William Nealon, Arthur F. Smith, Donald Hespelt, Mark Radley, and Kevin Connelly.

We wish to thank the management and staff of CAS and the College for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Jerry Barber
Audit Director

cc: Robert L. King, Division of the Budget
    Dr. Horace Judson, President, College at Plattsburgh
    Cheryll Hogle, President, CAS
    John Homburger, Treasurer, CAS Vice President for Business Affairs
    John Murphy, University Auditor
November 30, 1998

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 State University College at Plattsburgh and SUNY System Administration regarding the draft audit report on State University College at Plattsburgh Auxiliary Services Incorporated, Selected Financial Management Practices (97-55).

Sincerely,

Donald G. Dunn  
Executive Vice Chancellor

Enc.
SELECTED FINANCIAL PRACTICES OF THE COLLEGE
AUXILIARY SERVICES, INC.
STATE UNIVERSITY OF NEW YORK COLLEGE AT PLATTSBURGH
97-S-55

Recommendations (Pages 8-9)

(OSC) 1. Continue to focus efforts on monitoring and controlling costs and maximizing revenues for CAS operations that report annual financial losses.

(SUCP) 1. Agreement. We continually look for ways to reduce cost, enhance services, and increase revenues. We share the same philosophy in maximizing the cost benefit of CAS operations.

(OSC) 2. Develop a strategic plan that will lead to significant new revenues and/or new program objectives that justify the benefit of Valcour to the campus community. In the absence of such an effort, CAS and the College should consider whether maintaining Valcour is worth the benefit derived to the campus community.

(SUCP) 2. Agreement. CAS is currently studying the potential advantages of establishing a formal relationship with the College’s Hotel Restaurant Tourism Management Program, which would make Valcour an integral part of the HRM academic program by providing a laboratory experience site for students in this academic program. Such a partnership would enrich the existing academic program, enhance recruitment of new students, and create a new revenue source for CAS at Valcour, both from the academic department and from events catered by the students, since these events could serve beyond our membership base.

CAS will also begin including actual cost for use of the facility by campus groups in our annual budget statements, since this uncollected income is a program expense and needs to be shown as such.

CAS will increase marketing efforts for use of Valcour by alumni of the College while visiting the area.

(OSC) 3. Develop a strategic plan that will lead to significant new revenues and/or new program objectives that justify the benefit of Twin Valleys to the campus community. In the absence of such an effort, CAS and the College should consider whether maintaining Twin Valleys is worth the benefit derived to the campus community.

(SUCP) 3. Agreement. Efforts are currently underway to develop a marketing strategy that
will promote the use of Twin Valleys as a camping area for alumni who come to the Adirondacks for hiking and camping trips. This will require some additional work to clear trails and provide on-site supervision during times when the facility is in use. In addition, an effort will be made to encourage faculty in relevant academic programs, such as Environmental Science and Biology, to make use of this facility. The major impediment to use at this time seems to be the cost of transportation to and from campus. However, the Twin Valleys property does offer distinctive habitat for a number of plant and animal species, which could enhance several curricula.

(OSC) 4. Monitor attainment of the goal of having self-sufficient Conferencing service within five years.

(SUCP) 4. Agreement. Conference activity results in other additional revenue to the Plattsburgh State Campus. For the 1997 and 1996 fiscal years, the additional other revenue generated by the Conferencing activity was $158,156. The increased revenue stream is not recorded as conferencing sales and accordingly, does not reduce the conferencing deficit for those years. Conferencing activity also increases the exposure and prestige of the university to local, regional, and national constituencies.

(OSC) 5. Monitor attainment of the goal of declining Credit Card service costs resulting from increased card use.

(SUCP) 5. The campus debit card program (Cardinal Cash) had deposits received in excess of 1.3 million dollars for fiscal year ended June 30, 1997. The deposits enable CAS to overcome cash flow deficiencies in addition to increasing short-term investment income. The ease and functionality of the campus card has yielded increased sales in the vending program and the College Store. The Plattsburgh State card program is a technology leader in the SUNY System.

(OSC) 6. Examine CAS cash receipts and cash disbursement functions and implement separation of duty controls such as those recommended in the State Comptroller’s cash control guidelines wherever possible.

(SUCP) 6. Agreement. We will re-examine CAS cash receipts and cash disbursement functions and implement separation of duties, such as those recommended in OSC’s cash control guidelines, where material deficiencies are identified.

(OSC) 7. Strengthen CAS controls by implementing uniform press-numbered receipt forms, restrictive endorsement of checks upon receipt, review of disbursement documentation by those who sign disbursement checks and a mileage log to account for rental vehicle use.
7. Agreement. Action will be taken to review and strengthen controls as necessary in the areas referenced.

8. Develop written procedures in support of revenue and expenditure functions and controls utilized in all CAS operations.

8. Agreement. Written procedures remain one of the most difficult goals to achieve, inasmuch as it takes a lot of analysis and compilation time. We will commit to making a good faith effort to develop a procedures manual in support of revenue and expenditure functions and controls for CAS operations.

We agree with the recommendations and the College’s responses.