



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 20, 2007

Mr. John R. Ryan
Chancellor
State University of New York
State University Plaza
Albany, New York 12246

Re: Report 2006-F-42

Dear Chancellor Ryan:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by State University of New York (SUNY) officials to implement the recommendations contained in our audit report addressing *Dormitory Self-Sufficiency* (Report 2004-S-52).

Background, Scope and Objective

SUNY offers a complete range of academic, professional and vocational programs through a system of 4 university centers, 13 arts and sciences colleges, 8 technical colleges, 2 specialized colleges, 5 statutory colleges and 2 health science centers. For the 2005-06 school year, SUNY had a total enrollment of about 206,000 full-time and part-time students. About 71,000 students resided in dormitories at 26 of SUNY's campuses. SUNY's Board of Trustees (Board) sets university-wide policies for general dormitory operations. However, each campus independently sets room rental rates, which vary from campus to campus and by room type (single, double, or triple occupancy rooms or suites).

SUNY reports the results of dormitory financial operations separately from the results of financial operations of other campus functions. Effective July 1, 1997, the Board revised SUNY's Residential Hall Operations Policy and Guidelines (Policy) to require each campus' dormitory operation to be financially self-sufficient. The Policy also required each campus to pay its own debt service costs (rather than a portion of pooled debt service costs for facilities system-wide). The Policy was also intended to increase overall program efficiency by permitting campuses to directly manage more of their financial and program activities. The Board provided the campuses with a three-year transition period, ended June 30, 2000, to make their individual dormitory programs financially self-sufficient.

SUNY dormitories generated revenues of about \$4,900 per room for the 2005-06 year. During that year, dormitory revenues system-wide totaled \$333 million. Dormitory costs include building, maintenance and operating expenses, as well as costs for residential life programs. During the 2005-06 year, SUNY spent \$315 million for dormitory-related costs. Thus, SUNY's system-wide dormitory program generated a surplus of \$18 million for the 2005-06 year. As of June 30, 2006, the system-wide dormitory program had a cumulative net asset balance of \$64 million.

SUNY System Administration (System Administration) monitors the fiscal and physical conditions of the campuses' dormitory operations. According to System Administration officials, SUNY monitors campus self-sufficiency by reviewing the financial reports for each campus' dormitory operations. Officials focus on the unreserved net asset balance reported on each campus' balance sheet. A positive unreserved net asset balance indicates that a campus' dormitory rental revenues for a certain year plus reserves from the prior year exceeded the expenses and liabilities for the year in question. A positive unreserved net asset balance is also a primary indicator of a campus' financial self-sufficiency.

System Administration contracts with the Dormitory Authority of the State of New York (DASNY) to evaluate the physical condition of SUNY dormitories. As a result of these evaluations, DASNY prepares an annual Residential Hall Condition Assessment Report that summarizes dormitory conditions at each campus. Annually, System Administration requires each campus to develop a five-year capital project plan, which should address DASNY's recommendations for rehabilitation and repairs at each campus' dormitories.

Our initial audit report, which was issued on November 17, 2005, examined the financial affairs of campus dormitory programs for the period July 1, 2002 to June 30, 2004. The objectives of our performance audit were to determine if: SUNY dormitory operations were self-sufficient; SUNY campuses effectively planned for capital projects (including major rehabilitation and repair work); and dormitory revenues were used exclusively for dormitory operations. Our initial audit concluded that SUNY's dormitory operations, as a whole, were self-sufficient and that campuses generally used dormitory revenues exclusively for dormitory expenses. However, we identified five campuses' whose dormitory operations had deficits as of June 30, 2004 (four years after the transition period ended). We also determined that almost 20 percent of SUNY campuses had either no funds or inadequate funds (less than \$10,000) reserved for dormitory rehabilitation and repair projects. As a result, these campuses would likely have to borrow funds and/or raise room rates to fund such projects. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation, as of February 5, 2007, of the 10 recommendations made in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

We determined the SUNY officials have made significant progress in implementing the recommendations from our initial report. Specifically, of the 10 recommendations from the initial audit, 4 recommendations have been implemented, and 6 recommendations have been partially implemented.

Follow-up Observations

Recommendation 1

Identify System Administration subsidies/grants on individual campus dormitory operations financial reports.

Status - Implemented

Agency Action - Subsidies and grants from System Administration are now discretely identified on the financial reports for individual campus dormitory operations. Specifically, on the campus' Schedule of Selected Assets, Liabilities and Net Assets, subsidies and grants are presented as "Due from other: Transition loans."

Recommendation 2

Evaluate the agreement with Brockport to provide debt service assistance, given that Brockport uses dormitory funds to award scholarships.

Status - Partially Implemented

Agency Action - System Administration officials informally evaluated the agreement to provide Brockport with debt service assistance and Brockport's use of dormitory funds to award scholarships. Officials further indicated that they considered the two matters separate issues that should not impact each other. Officials maintained that it was appropriate to provide Brockport with debt service assistance because revenue could not be generated by the demolished dormitory for which bond payments must be made. Moreover, officials advised us that the debt service subsidies for Brockport will end during the 2007-08 year.

Recommendation 3

Ensure that each campus with a negative net asset balance for its dormitory operations prepares and submits a formal written corrective action plan, signed by the college's president, that specifies the steps the campus will take to eliminate its deficit and make its dormitory operations self-sufficient.

Status - Implemented

Agency Action - Formal written corrective action plans were submitted by the four campuses (Stony Brook, New Paltz, Maritime, and Cobleskill) whose dormitory operations had negative net asset balances for the 2004-05 year (the year subsequent to the period of our original audit). Three corrective action plans were signed by the campus Presidents. The fourth (from New Paltz) was signed by the Vice President for Administration, as the designee of the President. The plans detailed the actions that the campuses would take to address the negative net asset balances of their dormitory programs. Moreover, at the time of our follow-up, three of the four campuses in question had eliminated their negative balances. Only one of the four campuses (Maritime) had a negative balance at the time of our follow-up. Also, officials

anticipate that the fiscal status of Maritime's dormitory program will improve considerably due to increases in enrollments.

Recommendation 4

Monitor campuses' compliance with corrective action plans and their overall progress toward self-sufficient dorm operations. Review their progress in implementing the plans, and document this assessment.

Status - Partially Implemented

Agency Action - The Office of the University Controller (part of System Administration) prepares year-end Dormitory Operating Statements to assess the self-sufficiency of each campus' dormitory operation and to help analyze and monitor the progress of campuses with negative net asset balances. As noted previously, any campus that had a negative net asset balance at fiscal year-end was required to submit a formal corrective action plan to the Office of Finance and Business Administration (also part of System Administration). The Office of Finance and Business Administration ensures that campuses with negative asset balances submit formal corrective action plans. Further, officials concluded that action plans were executed effectively if campuses eliminated their negative net asset balances. However, officials did not document their reviews of the campuses' efforts to implement the specific elements of their action plans.

Recommendation 5

Monitor the fiscal condition of campuses that reduce their reserves to achieve positive net asset balances to help ensure these campuses remain self-sufficient.

Status - Partially Implemented

Agency Action - System Administration officials indicated that they monitor campus' fiscal conditions through the normal course of business, including the preparation of year-end financial reports, as detailed previously. However, officials did not document efforts specifically intended to analyze and monitor the fiscal conditions of campuses that reduce reserves to achieve positive net asset balances. Officials advised us that, in the future, they will document more completely efforts to monitor campuses that reduce reserves to achieve positive net asset balances.

Recommendation 6

Investigate the reason(s) why many campuses do not implement significant numbers of DASNY recommendations in developing their five-year capital plans. Correct any problems that limit the utility of DASNY Condition Assessments for SUNY campuses.

Status - Partially Implemented

Agency Action - DASNY's Condition Assessments are comprehensive listings of all potential campus rehabilitation and repair projects. System Administration officials, however, concluded that it is not feasible for campuses to include all projects in their five-year capital plans because of market and student affordability factors, as well as the requirement for financial self-sufficiency. Consequently, projects related to health and safety concerns (per the Condition Assessments) receive high priority in campuses' current five-year capital plans, and other projects (of lesser priority) are left off the plans. Further, System Administration officials advised us that they will modify the format of the Condition Assessment (beginning with 2007-08 year) so that projects are prioritized better - with health, safety and critical maintenance items receiving the highest priority.

Recommendation 7

Establish minimum fund balances for rehabilitation and repair reserve funds. Require campuses to annually contribute specific amounts to their rehabilitation and repair reserve funds to reach the minimum levels and monitor its reserves.

Status - Partially Implemented

Agency Action - Late in 2006, System Administration officials made a proposal to senior SUNY management to establish a minimum year-end standard for campus dormitory program reserves. Further, officials plan to establish a minimum reserve standard for the 2007-08 year after discussions with appropriate campus representatives. At the time of our follow-up, a proposed standard would establish a minimum reserve sufficient to cover a percentage of a campus' dormitory program's operating expenses plus an amount for the next year's cash-funded rehabilitation projects (projects not funded through borrowed monies).

Recommendation 8

Ensure campuses properly record dormitory expenses, including charging such expenses to dormitory funds.

Status - Partially Implemented

Agency Action - System Administration officials instructed all campuses to properly record dormitory expenses. However, officials have not formally reviewed dormitory expenditures to ensure that they were, in fact, properly recorded by campus personnel. Officials added that the College at Old Westbury has changed its procedures to address the matters that we identified in our initial audit.

Recommendation 9

Ensure campuses consistently report their filled beds on the Residence Hall Utilization Survey and the Revenue Reconciliation report.

Status - Implemented

Agency Action - The Office of the University Comptroller reconciles the number of filled beds reported on the Residence Hall Utilization Survey to the number of beds indicated on the Revenue Reconciliation Report for each campus. When disparities in the numbers of beds on these reports are identified, officials follow up with the campuses to determine the reasons for the disparities and to correct the data, as appropriate.

Recommendation 10

Annually verify bed capacity data on the Residential Hall Utilization Survey and Revenue Reconciliation report to ensure this data is complete and accurate.

Status - Implemented

Agency Action - The Office of the University Comptroller reconciles the number of available beds (bed capacity) reported on the Residence Hall Utilization Survey with the number of beds indicated on the Revenue Reconciliation Report for each campus on an annual basis. When disparities are identified, officials follow up with the campuses to resolve them.

Major contributors to this report were Bill Clynes, Don Collins and Nicole Van Hoesen.

We would appreciate a response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of SUNY for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Brian E. Mason
Audit Manager

cc: Ms. Kimberly Cline (SUNY)
Mr. Daniel Sheppard (SUNY)
Mr. Michael Abbott (SUNY)
Ms. Lisa Ng (Division of Budget)