

H. CARL McCALL  
STATE COMPTROLLER



A.E. SMITH STATE OFFICE BUILDING  
ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

September 3, 1997

Dr. John W. Ryan  
Chancellor  
State University of New York  
State University Plaza  
Albany, NY 12246

Re: Report 97-F-5

Dear Dr. Ryan:

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, we have reviewed the actions taken by officials of the State University of New York (SUNY) as of March 6, 1997 to implement the recommendations contained in our prior audit report, 95-S-6. Our prior report, which was issued November 15, 1995, examined SUNY System Administration and campus Auxiliary Service Corporations (ASCs) controls over student food service costs. The primary objective of our audit was to determine whether SUNY was providing food services economically and efficiently.

**Background**

The State University of New York (SUNY) is one of the largest higher education systems in the nation with 29 State-operated campuses and 5 State-funded statutory colleges. Each SUNY campus manages all aspects of campus operations, including providing food services to students for a fee. Our prior audit focused on student food services at 24 campuses. Three of these campuses contract with private, for-profit food service providers for these services. The other 21 campuses provide student food services through contracts with ASCs. ASCs are campus-based, not-for-profit corporations established to provide services such as campus stores and food services. Each ASC is guided by a Board of Directors, which includes representatives of the campus administration, faculty and students. The 24 campuses generated revenues totaling approximately \$100 million in 1992-93 and \$109 million in 1993-94 from meal plan sales, cash sales and catering services.

**Summary Conclusion**

Our prior audit report contained recommendations designed to reduce the cost of food services to students. We found that SUNY has made some progress in implementing the recommendations contained in our prior report.

## **Summary of Status of Prior Audit Recommendations**

Of the four prior audit recommendations, SUNY has fully implemented one and has not implemented the other three recommendations. However, SUNY plans to implement one of the three remaining recommendations starting in January of 1998.

### **Follow-up Observations**

#### **Recommendation 1**

*SUNY Central should seek to amend Article 11, Section 181 of the State Finance Law to enable ASCs to utilize State commodity contracts.*

Status - Not Implemented

Agency Action - SUNY officials told us that they plan to start working on this recommendation in January of 1998. For the 1996 and 1997 legislative sessions, SUNY System Administration's highest priority was the "Rethinking SUNY" initiative. This initiative required all of System Administration's resources, therefore work was not begun to develop proposed legislation to permit the ASCs to utilize State commodity contracts when purchasing food.

Auditor Comments - We continue to believe that this recommendation should be implemented to ensure that SUNY can provide student food services in the most economical and effective manner possible.

#### **Recommendation 2**

*The ASCs should implement collective purchasing strategies that will result in the lowest price possible consistent with the quality of goods needed.*

Status - Fully Implemented

Agency Action - In the Fall of 1995, SUNY undertook a pilot project to consolidate ASC purchasing power. This initial project involved 11 campuses and three food items. SUNY reported savings for the 1995-1996 school year of \$115,500 as a result. The project was continued into the 1996-1997 school year and expanded to include seven food items. SUNY reports estimated program savings for this year to be \$285,000. SUNY officials consider this effort to be the beginning of a long-range program that will have a great impact on savings.

#### **Recommendation 3**

*Ensure that food service commissions paid to the campuses are used to either reduce the cost of meal plans to students or improve the food service program.*

Status - Not Implemented

Agency Action - SUNY officials disagree with this recommendation and continue to maintain that the ASC's general purpose clause allows for the utilization of food service commissions to reduce the cost of meal plans to students, enhance or improve the food service program, or provide funding for initiatives related to the campus mission. Thus, SUNY officials believe that it is appropriate to use food service commissions as deemed necessary by each campus.

Auditor Comments - We believe that the more appropriate use of these commissions is to either reduce the cost of the meal plans to students or to enhance or improve the food service program. As commissions result from students paying for food services, students should obtain the benefit of these commissions either through reduced food services costs or improved food services programs.

#### **Recommendation 4**

*Examine administration costs at those campuses that subcontract for food service to ensure that costs charged are reasonable.*

Status - Not Implemented

Agency Action - SUNY officials indicate that they do not need to implement this recommendation because the management and execution of the ASC budget is appropriately administered at the local Board of Directors and campus administration level. According to SUNY officials, through significant student representation on the ASC's Board of Directors (one-third to fifty percent), students are provided the opportunity to be involved in the local decision making process for corporate operations through exercise of their voting privileges. SUNY believes that this structure provides reasonable assurance of the appropriateness of expenditures. SUNY further points out that the underlying theme of the "Rethinking SUNY" initiative, developed by SUNY's Board of Trustees in 1995, is that each campus is empowered to directly manage its affairs and SUNY System Administration's role is to set policy. SUNY believes our recommendation is inconsistent with the direction SUNY currently is taking to increase its efficiency.

SUNY officials further note that the new ASC contract (1997-2002) will enable campuses to become more self-sufficient while reducing System Administration involvement in operational details. The campus president (or designee) is given full responsibility for approving ASC budgets and program expenditures. The Vice Chancellor for Finance and Business will review the corporation's annual audited financial statements and has the authority to require pre-approval of the ASC subsequent year budget if a material weakness is identified as the result of such review.

Auditor Comments - We acknowledge "Rethinking SUNY" and the new ASC contract focus on campus empowerment to manage campus affairs. However, we believe that SUNY System Administration should be cognizant of those instances where administrative costs charged to student food services appear to not be reasonable. In those instances, a determination should be made that student interests with respect to these costs have not been overlooked. We believe that such an approach would be consistent with "Rethinking SUNY" and the new ASC contract and would ensure that the interests of SUNY students are duly considered. We do not believe that a review of an ASC's annual audited financial statements for "material weakness" would identify whether administrative costs for food service are reasonable.

Major contributors to this report were Karen Bogucki and Richard Loveless.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address the unresolved matters discussed in this report. We also wish to thank the management and staff of SUNY System Administration for the courtesies and cooperation extended to our staff during this review.

Very truly yours,

Jerry Barber  
Audit Director

cc: Patricia A. Woodworth