ALAN G. HEVESI
COMPTROLLER

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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 17, 2005

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

Re: Dormitory Self-Sufficiency
Report 2004-S-52

Dear Mr. 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 audited the State University of New York's controls over the fiscal self-sufficiency of campus dormitory operations. Our audit covered the period July 1, 2002 through June 30, 2004.

A. Background

The State University of New York (SUNY) offers a complete range of academic, professional and vocational programs through a system of four university centers, 13 arts and sciences colleges, eight technical colleges, two specialized colleges, five statutory colleges and two health science centers. For the 2003-04 school year, SUNY had a total enrollment of about 205,000 full-time and part-time students and housed about 70,000 students in dormitories at 26 of its campuses. SUNY's Board of Trustees (Board) sets university-wide policies for overall dormitory operations. However, each campus independently sets dormitory room rental rates, which vary from campus to campus and by room type (single, double, triple occupancy rooms or suites). SUNY campuses' dormitory operating results are reported separately from those of other campus functions.

SUNY's average dormitory room rental revenue was $3,784 per room for the 2002-03 academic year; for the 2003-04 year, average room rental revenue increased to $4,069 per room. Dormitory costs include residential hall building, maintenance and operating expenses and residential life education program expenditures. During our two-year audit period, the campuses collected $537 million in dorm-related revenues and expended $540 million for dorm-related costs. SUNY's dormitory operating fund had a surplus (referred to as a net asset balance) of $45 million as of June 30, 2004. During the two-year period ending June 30, 2004, the dormitory operating fund experienced a $3 million shortfall of revenue collections over operating expenses.

SUNY System Administration monitors the fiscal and physical conditions of the 26 campuses' dormitory operations. According to System Administration, it monitors campus self-sufficiency by reviewing campus dormitory operations financial reports. Officials report that System Administration focuses in particular on the unreserved net asset balance reported on each campus's balance sheet. A positive unreserved net asset balance indicates the campus's dormitory rental revenues for the year plus reserves from the prior year exceed expenses and liabilities for the current year, making the campus self-sufficient. System Administration requires each campus to annually develop a five-year capital project plan, which should include the campus's recommendations for rehabilitation and repairs to maintain its dormitories. System Administration issues periodic reports to the Chancellor on the physical condition of the dormitories and responds to information requests from the Division of the Budget, the State Legislature and other interested parties on the operations and conditions of SUNY's dormitories.

Since 1980, the Board has required campus dormitory operations, considered collectively, to be fiscally self-supporting. Each campus was also required to pay an allocated portion of the debt service costs associated with dormitory construction. When this policy was implemented in 1980, SUNY dormitory operations had a $31 million deficit, which System Administration overcame using State funds. Effective July 1, 1997, the Board revised its Residential Hall Operations Policy and Guidelines (Policy) to require each campus's dormitory operations to be self-sufficient. The Policy also required each campus to pay its own actual debt service costs, rather than a portion of pooled debt service costs. The Policy was intended to increase efficiency by permitting campuses to directly manage more of their financial and program activities. Campuses were allowed a three-year transition period, ended June 30, 2000, to become individually self-sufficient.

B. Audit Scope, Objectives and Methodology

We audited SUNY's controls over its dormitory program for the period July 1, 2002 to June 30, 2004. The objectives of our performance audit were to determine whether SUNY dormitory operations were self-sufficient; whether SUNY campuses effectively plan for capital projects, including major rehabilitation and repair work; and whether dormitory revenue is used solely for dormitory operations.

To accomplish our objectives, we reviewed applicable statutes, rules, regulations, and SUNY policies and procedures governing dormitory operations. We performed analytical reviews of all 26 campuses' financial reports and revenue and expenditure data for our audit scope period, and also examined campuses' five-year capital plans prepared during the same period. Our analytical reviews involved examining 16 different financial indicators (e.g., operating losses and various expense categories, including personal service and utilities) to identify campus dormitory operations that may not be self-sufficient. We conducted on-site visits at a sample of eight campuses, judgmentally selected from among those campuses that met the greatest number of the above indicator criteria. During visits to these campuses (SUNY Colleges at Cobleskill, Oswego, New Paltz, Purchase, Maritime, and Old Westbury; the Universities at Albany and Stony Brook), we interviewed responsible officials and examined documentation supporting revenue collections, expenditure transactions and capital planning processes related to dormitory operations.

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's dormitory operations that are within our audit scope. Further, these standards require that we understand SUNY's internal control structure and its compliance with those laws, rules and regulations that are relevant to the 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 our audit provides a reasonable basis for our findings, conclusions and recommendations.

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, several of which are performed by the Division of State Services. 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 the purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

We concluded that SUNY's dormitory operations, as a whole, were self-sufficient, and that campuses used their dormitory revenues solely for dormitory expenses. However, we identified five campuses' whose dormitory operations were in deficit as of June 30, 2004; one campus had a deficit after having received a $6.5 million grant from System Administration in January 2003. Another three campuses avoided deficits by significantly reducing their reserves. We also determined that almost 20 percent of SUNY campuses have either no funds or inadequate funds (less than $10,000) reserved for dormitory rehabilitation and repair projects. As a result, these campuses will likely have to borrow and/or raise room rates, to fund these projects. To help ensure campuses maintain self-sufficient dormitory operations, System Administration should require detailed corrective action plans from campuses in deficit situations and monitor campuses' compliance with their plans. System Administration should also require campuses to contribute specific amounts to their rehabilitation reserve funds to ensure campuses have the resources to perform necessary maintenance and repairs at their dormitories.

1. Fiscal Condition of Dormitory Operations

SUNY policy requires each campus's dormitory operations to be self-sufficient as of June 30, 2000 and thereafter. However, when we reviewed the financial reports for the 26 campuses, we found that the dormitory operations at five campuses (the Colleges at Old Westbury, Fredonia, Cobleskill and New Paltz and the University at Stony Brook) were not self-sufficient, as noted by their negative net asset balances. Deficits at these five campuses totaled $3.2 million as of June 30, 2004, as shown in *Table 1*. Two of these campuses (Fredonia and Stony Brook) also reported operating losses in both the 2002-03 and 2003-04 school years.

Table 1: Dormitory Operations with Negative Net Asset Balances as of June 30, 2004					
Campus	**Net Asset Balance 6-30-02**	**Operating Results 02-03**	**Net Asset Balance 6-30-03**	**Operating Results 03-04**	**Net Asset Balance 6-30-04**
Cobleskill	($2,529,230)	$723,480	($1,805,750)	$663,738	($1,142,012)
New Paltz	($549,350)	$40,210	($509,140)	$394,926	($114,214)
Fredonia	$263,799	($150,608)	$113,191	($511,633)	($398,442)
Stony Brook	$1,639,068	($57,459)	$1,581,609	($2,964,887)	($1,383,278)
Old Westbury [1]	($3,729,247)	$3,806,492	$77,245	($276,863)	($199,618)
Total Balance for the 5 campuses	($4,904,960)		($542,845)		($3,237,564)

[1] Old Westbury achieved positive operating results in the 2002-03 year because it received a $6.5 million grant from Systems Administration.

Cobleskill's negative net asset balance is attributable to the debt service it assumed responsibility for in 1997. Cobleskill's individual debt service was relatively large compared to that of other SUNY technology colleges. New Paltz's deficit is due principally to debt service payments for a new dormitory that came due in 2001, even though the new dorm did not open (and start producing rental revenue) until August 2004. However, even though Cobleskill and New Paltz reported negative net asset balances in both years we examined, both colleges also reported annual operating surpluses in both 2002-03 and 2003-04. With the improvement in financial condition, both campuses' dorm operations have moved closer to self-sufficiency.

Fredonia and Stony Brook incurred their negative net asset balances because of unanticipated increases in expenses and decreases in revenues. According to Fredonia's Vice President for Finance, Fredonia's deficit of about $510,000 resulted from unanticipated utility expenses of $220,000 and personal service expenses of $60,000, along with an unexpected decrease in revenues ($262,000) because more students than usual left dormitories between semesters. Fredonia officials documented the steps they are taking to increase future revenues. Stony Brook's deficit of about $1.4 million resulted from its transfer of $4.1 million into the Rehabilitation and Repair Fund in 2003-04. Stony Brook had budgeted for a transfer of only $760,000.

Old Westbury's deficit resulted from expanding its dormitory capacity without increasing the number of residential students. The underlying planning problems occurred under a previous administration at the college prior to the current President's arrival in September 1999. In November 1998, the Board approved the construction of a new, 800-bed, $36 million dormitory complex at Old Westbury based on Old Westbury officials' representation that it would increase its student population. After a number of construction delays, which further increased the project's costs, the new dormitory opened in the fall of 2003. However, Old Westbury did not attract additional students and does not have enough students - and related dormitory revenue - to support this new residential space. In October 2004, Old Westbury reported it had 731 vacant beds for a campus-wide utilization rate of only 52 percent. As of February 2005, Old Westbury officials had not increased the number of residential students, and are planning to generate dormitory revenues by leasing vacant dorm rooms to non-SUNY students from two private colleges.

Old Westbury's dormitory operations had cumulative deficit of more than $3.7 million as of June 2002. In January 2003, System Administration gave Old Westbury a $6.5 million grant to help pay its debt service, contrary to the Board's Policy that each campus be responsible for paying its own debt service costs. System Administration did not require Old Westbury to repay the $6.5 million, and the grant funds are not shown on Old Westbury's dormitory operations financial statements. Without this grant, Old Westbury would have had a deficit of about $6.7 million - rather than a deficit of $199,000 - for the year ended June 30, 2004. The fact that Old Westbury's dorm operations had a deficit 18 months after an infusion of $6.5 million in grant funds indicates serious fiscal issues with Old Westbury's dormitory operations as of June 30, 2004.

Brockport also received money from System Administration. In 1992, Brockport had to demolish a dormitory that had been poorly designed and poorly constructed. Thus, Brockport had to pay debt related to the dorm's construction without a building capable of generating rental revenue. In March 1999, System Administration agreed to pay a portion of Brockport's outstanding debt service. Grants for this purpose totaled $2.9 million during our audit period. Again, System Administration does not require Brockport to repay these funds, which are not shown on the dormitory operations financial reports. Without this assistance, Brockport would have reported a $1.6 million net deficit - instead of a $1.3 million surplus - for the year ended June 30, 2004.

During this same two-year period, Brockport used dormitory revenues to award $1.4 million in scholarships, the highest amount of scholarship funds offered by any SUNY campus. This $1.4 million accounts for about 34 percent of the $4.1 million in dormitory scholarships offered by the 11 SUNY campuses that offered such scholarships in 2002-03 and 2003-04. The campus with the next highest amount of dormitory scholarships ($900,000) was Alfred. Although we recognize that these scholarships were provided in compliance with the SUNY Chancellor's 2001 guidelines, we question whether Brockport should receive $2.9 million in debt service assistance from System Administration when it can afford to use dormitory funds to provide scholarship awards. Given these circumstances, System Administration should reevaluate its agreement to provide debt service assistance.

We also believe that any grants received from System Administration should appear on the financial reports for the campus's dormitory operations. These reports should fully present the financial condition of the campus's dormitory operations. Grant data should be disclosed, both because grants impact the bottom line for campus dormitory operations, and because System Administration uses these financial reports to monitor campuses' performance. System Administration officials told us they would include such information in future reports.

To fulfill its monitoring responsibilities, System Administration should require campuses with dormitory operations deficits to submit formal corrective action plans. These plans should be signed by the college president, and should identify specific actions the college will take to address its fiscal problems (such as revenue shortfalls, high dormitory-related expenses or debt costs). A formal plan informs System Administration about the deficit and how to correct problems that caused it. In addition, such a plan focuses accountability for developing solutions for the deficit and strategies for achieving self-sufficiency at the college level. The college's plan should state specific goals it will achieve each year to reach a positive net asset balance. System Administration can then periodically monitor the campus's progress in implementing its plans and meeting its solvency goals.

We found that System Administration's procedures do require each campus with a dormitory operations deficit to submit a corrective action plan, signed by the campus president that identifies how the campus will overcome the deficit. For the fiscal years ending June 30, 2003 and June 30, 2004, System Administration required seven plans from the five campuses listed in *Table 1*. (Cobleskill and New Paltz were each required to submit two plans.) However, we found that, of the six plans actually submitted, (Cobleskill did not submit its plan for 2002-03), no plans were signed by the college president. Further, five of the six plans lacked details stating how the campus would become solvent. Unless a campus submits a plan that contains detailed steps to overcome its deficit, the campus will not have a roadmap to follow, and System Administration cannot monitor its progress toward self-sufficiency.

We also found that System Administration does not require corrective action plans from campuses that, while managing to maintain positive net asset balances for their dormitory operations, do so by reducing their reserves significantly to offset the impact of operating losses. We identified three campuses (the Universities at Albany and Binghamton and the College at Alfred) that experienced operating losses during both the 2002-03 and 2003-04 school years, as shown in *Table 2*. By using accumulated reserves to cover their losses, these campuses reduced their reserve balances by more than 50 percent during the two years ending June 30, 2004.

Table 2: Campuses with Positive Balances but Reduced Reserves

Campus	Reserve Balance 6-30-02	Reserve Balance 6-30-04	Decrease in Reserves for two years
Albany	$11,205,398	$2,772,089	($8,433,309)
Binghamton	$3,926,243	$1,987,636	($1,938,607)
Alfred	$2,486,329	$1,783,151	($703,178)

If these campuses continue to operate at a loss, their reserve balances could be depleted within the next two years. These situations require closer monitoring by System Administration to help ensure the campuses remain self-sufficient in the future.

2. Capital Project Planning

SUNY's 1997 Policy requires each campus to allocate funds for major rehabilitation and repair projects sufficient to maintain the long-term physical and operational integrity of the dormitories. The Policy requires System Administration to perform regular inspections of the dormitories and to issue periodic reports to the Chancellor on their condition. System Administration also requires campuses to prepare five-year capital plans to identify rehabilitation projects planned for their dormitories.

System Administration contracts with the Dormitory Authority of the State of New York (DASNY) as an outside expert to evaluate the condition of dormitories. DASNY prepares an annual Residential Hall Condition Assessment Report that summarizes dormitory conditions at each campus. These Reports are based on industry standards; DASNY inspections; DASNY expertise in the area of dormitory repairs; and the information in campuses' prior five-year capital plans. The October 2002 Report completed by DASNY identified dormitory rehabilitation and repair projects SUNY-wide totaling $345 million.

When they develop their five-year capital plans, campuses prioritize rehabilitation and repair projects based on their assessment of critical needs and their financial situation. Recommendations resulting from DASNY inspections should be a resource in plan development. In examining the five-year plans submitted by all 26 campuses, however, we found inconsistencies in campuses' use of DASNY project information in creating their five-year plans. For example, two campuses (Oneonta and HSC Brooklyn) incorporated all the DASNY-identified needs, totaling $4.2 million, in their five-year capital plans; however, six other campuses (Binghamton, Buffalo College, New Paltz, Old Westbury, Alfred and Canton) did not incorporate any DASNY-identified projects, totaling $282 million, in their capital plans. On average, campuses incorporated only 24 percent of the projects identified by DASNY into their capital plans. (However, we found campuses did address health and safety concerns, as identified by DASNY, that involved critical projects.)

We also found that System Administration officials, during their annual review of each campus's capital plan, do not document the steps they take to determine why many campuses do not act on DASNY's recommendations. Since DASNY is System Administration's contracted expert, its evaluation services and recommendations should be useful to individual campuses. Otherwise, System Administration is paying for services that campuses do not regularly use or rely on to develop their capital plans. To derive more value from these services and to enhance the effectiveness of campus capital planning, System Administration should compare DASNY's recommendations to the campus's capitol plans and determine if excluding DASNY's recommendations is valid.

Each campus maintains an individual rehabilitation and repair reserve fund to address capital projects, including major rehabilitation/repair projects and emergency repairs at dormitories. System Administration does not require campuses to contribute a specific amount to their reserves every year. In addition, System Administration has not established a minimum balance campuses must maintain in their repair reserve funds; instead, campuses determine their own reserve requirements. During the fiscal year ended June 30, 2003, three campuses (New Paltz, Potsdam and Buffalo University) transferred money from their uncommitted repair reserve funds to their general dormitory operating funds to meet operating expenses, leaving these campuses with zero balances in their uncommitted repair reserve funds. These three colleges had identified capital rehabilitation and repair projects in their 2003-08 five-year capital plans that total $42 million. With no money available in their reserve funds, however, we question whether these campuses can pay for emergency repairs at dormitories, much less their planned capital projects.

System Administration officials stated that campuses can use their operational reserves to pay for capital projects, if necessary. However, campuses must depend on operational reserves to cover operational costs. Our analyses of the unreserved balances in campuses' repair funds as of June 30, 2004 found that 5 campuses (almost 20 percent of SUNY campuses) had unreserved balances of less than $10,000 in their reserve funds. Insufficient reserve balances may hinder these campuses' efforts to perform basic maintenance and repairs. To ensure campuses can address rehabilitation needs on a timely basis to maintain their dormitories, System Administration should establish a minimum balance campuses must maintain in their reserve funds. Reserve funds should also be included in campuses' annual dormitory operations budgets so System Administration can monitor campuses' reserve fund balances. If dormitories are allowed to deteriorate, the costs of repairing them will be higher, requiring campuses to raise rental rates (and discouraging dorm residence) or to use scarce non-dormitory revenues to fund repairs. Either choice would make self-sufficiency difficult to maintain.

3. Accounting for Dormitory Revenues and Expenses

We tested controls over dormitory revenues at the eight campuses we visited to determine whether these campuses properly collected dormitory revenues and limited expenses to dormitory-related costs. We found that, generally, these campuses had adequate controls over the collection and allocation of dormitory revenues and the proper classification of dormitory costs. Although we noted a number of instances in which campuses charged costs to incorrect expense categories, the categories were nonetheless dormitory expenses. However, one campus (Old Westbury) charged a dormitory expense to a non-dormitory expense account in 2002-03 ($10,000 of dormitory water expense) and again in 2003-04 ($132,000 of dormitory natural gas and water expenses). As a result, Old Westbury underreported its dormitory expenses for both years.

System Administration requires each campus to annually report its dormitory bed capacity on two separate reports: the Residential Hall Utilization Survey (Survey) which reports the campus's actual bed capacity and occupancy as of the fifth week of the school year; and the Revenue Reconciliation Report, which indicates the number of filled beds, the rates billed per bed, and total revenues collected as of the end of the school year. System Administration officials use Survey data to perform analyses needed to carry out its monitoring function; to provide accurate information, as requested, to the Division of the Budget and the Legislature; and to fulfill mandatory bond issuance reporting requirements. System Administration uses the Revenue Reconciliation Report to reconcile the amount of dormitory revenue billed and collected by each campus. System Administration officials should compare these two reports to verify the accuracy of both campuses' bed data (both available and filled) and related revenue collections. However, we found that System Administration officials do not reconcile the data in the two reports. When we compared these reports for all 26 campuses, we found that, for seven campuses, the number reported for filled beds was inconsistent on the two reports.

System Administration, working with campus officials, was able to resolve some, but not all, of the filled bed discrepancies we identified. For example, at three campuses (Old Westbury, Purchase and Potsdam), discrepancies between the two reports for the fall 2003 semester totaled 833 beds, or 19 percent of these campuses' total filled beds. Upon contacting the campuses in question, System Administration determined the discrepancies resulted from campuses inconsistently reporting non-revenue producing beds (e.g., beds assigned to resident assistants) on the Survey and the Revenue Reconciliation Report. Since filled bed figures on the Survey differ from the same information on the Revenue Reconciliation report, System Administration officials had no assurance that these campuses appropriately reported their dormitory revenues. Reporting discrepancies also limit System Administration's abilities to effectively monitor the campuses, and may result in reporting inaccurate information to the Division of the Budget, the Legislature and other interested parties.

Recommendations

1. *Identify System Administration subsidies/grants on individual campus dormitory operations financial reports.*
   (SUNY officials agree with recommendation number 1 and will modify campus dormitory operation financial statements accordingly.)

2. *Evaluate the agreement with Brockport to provide debt service assistance, given that*

Brockport uses dormitory funds to award scholarships.

(SUNY officials did not concur with recommendation number 2. They stated that responsibility for the debt service should be shared because the problem that led to the agreement was not the fault of Brockport campus officials.)

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.*

   (SUNY officials partially concur with recommendation number 3. Officials stated that most campuses are already preparing corrective action plans, and they will ensure that campus plans are signed by the presidents.)

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.*

   (SUNY officials partially concur with recommendation number 4. Officials added that System Administration will require campuses to submit follow-up reports at the end of each fiscal year identifying the actions that were taken and their impacts on dormitory operations.)

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.*

   (SUNY officials partially concur with recommendation number 5. They stated that System Administration monitors campuses' use of reserves and recognizes that there are temporary circumstances under which reserves are used for one-time costs or as financial bridges.)

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.*

   (SUNY officials did not concur with recommendation number 6. They stated that DASNY-identified needs serve as a long-term list of projects, the feasibility of which must be continuously evaluated based on the availability of funding, the local student housing market, and other factors.)

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.*
   (SUNY officials did not concur with recommendation number 7. They stated that minimum reserve standards may require campuses to substantially increase room rental rates which may not be practical in the current environment.)

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

   (SUNY officials stated internal controls have been improved at several campuses, and System Administration will continue to review the recording of dormitory expenses for proper compliance.)

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

   (SUNY officials stated that the implementation of the recommendation will be communicated to all campuses by System Administration.)

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

    (SUNY officials stated that the University Controller's Office now reviews the fall utilization report and reconciles this information to the revenue reconciliation as part of the year end revenue review process.)

We provided draft copies of this report to SUNY officials for their review and formal comment. We have considered the comments of SUNY officials in the preparation of this report and have included their comments as Appendix A. SUNY officials stated that they do not concur with many of the audit's findings and recommendations. Nevertheless, SUNY officials indicated that they have taken or will take steps to implement six of the report's ten recommendations. In addition, our rejoinders to SUNY's comments are included in Appendix B, State Comptroller's Notes.

Within 90 days after the final release of this report, the Chancellor of State University of New York should report to the State Comptroller advising what steps were taken to implement the recommendations contained in this report, and where recommendations were not implemented, the reasons why.

Major contributors to this report were Brian Mason, Bill Clynes, Christine Rush, Jeffrey Dormond, Jennifer Van Tassel and Nancy Varley. We wish to thank the management and staff at System Administration, and each of the campuses we visited for their courtesies and cooperation extended to our auditors during the audit.

Very truly yours,

Steven E. Sossei
Audit Director

cc: C. Kevin O' Donoghue, University Auditor
Daniel Sheppard, Assistant Vice Chancellor for Budget and Finance
Robert Barnes, Division of the Budget

THE STATE UNIVERSITY *of* NEW YORK

September 27, 2005

Elizabeth D. Capaldi

Mr. Steven E. Sossei
Audit Director
Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Mr. Sossei:

In accordance with Section 170 of the Executive Law, enclosed are the comments of the State University of New York in response to your draft audit on Dormitory Self-Sufficiency (2004-S-52).

We are pleased that the Office of the State Comptroller has determined that the University's dormitory operations, as a whole, were self sufficient and that campuses use their dormitory revenues solely for dormitory expenses. These findings are consistent with those of the major bond rating agencies, which have repeatedly given our self-supporting residence hall program strong credit ratings.

As indicated in the enclosed responses from campuses whose residence programs were examined by your audit team and from the program administrator, SUNY System Administration, we do not concur with many of the State Comptroller's findings and recommendations either partially or in their entirety. However, we recognize that your staff had a relatively short period of time to assess this decentralized, diverse and complex program. In particular, we direct your attention to the University at Albany's comments on pages four and five of the enclosed response document. Although, the Albany campus is addressing a specific element of the State Comptroller's report, in doing so, it makes a number of points that are broadly applicable to the entire University residence hall program. As such, the Albany campus response provides a context that is critical for a complete understanding of a program that has complex and interrelated operating and capital components, and is subject to market considerations external to the State and the State University environments.

* Note 1

We would also like to thank and commend the team from your office who conducted this audit for their courtesy, patience and professionalism.

Sincerely,

Elizabeth D. Capaldi

Enclosure

* See State Comptroller's Notes, Page 25

Appendix A

State University of New York
Dormitory Self-Sufficiency
2004-S-52

Results of Audit – SUNY Response

1. Fiscal Condition of Dormitory Operations

State University of New York at Stony Brook Response

The Comptroller's draft report improperly concludes that Stony Brook's residence hall operations were not self sufficient because it utilizes incorrect financial data (in Table 1) and does not consider all uncommitted cash balances available to the residence hall operations at Stony Brook. When accurate financial data is used and available uncommitted cash balances are considered, approximately $1.6 million is available for residence hall operations as of June 30, 2004, rather than the negative $2.3 million reported in Table 1 in the draft report. In addition, as of June 30, 2004 all of the projects to be paid for out of the rehabilitation and repair fund were fully funded.

* Note 2

	Per Audit Draft Table 1	Per University Records	Difference
Net Assets Balance 6/30/03 (Operating)	$1,581,609	$1,581,609	$0
Operating Results 03-04 (Note 1)	$(3,899,127)	$(2,964,887)	$934,240
Net Asset Balance 6-30-04 (Operating)	$(2,317,518)	$(1,383,278)	$934,240
Uncommitted Cash 074-DZ (Note 2)		$2,965,660	$2,965,660
Uncommitted Cash Available	$(2,317,518)	$1,582,382	$3,899,900

* Note 3

* Note 4

Note 1) The data OSC used in Table 1 did not include inventory balances at 6/30/04. These were reported in the CFRP, but were inadvertently omitted from the original set of DIFR statements issued from System Administration.

Note 2) As described in earlier campus correspondence to System Administration, these operating funds were voluntarily set aside by the campus and could be transferred back into the DIFR operating fund at any time.

* See State Comptroller's Notes, Page 25

State University College at Brockport Response

Stage XVI Debt Service

On page 5, the second paragraph, references the 1992 demolition of a dormitory attributable to poor design and poor construction, and the resulting need for Brockport to pay debt service without a source of revenue generation. Further, SUNY System Administration agreed to pay a portion of the remaining debt service.

The Campus appreciates the help that SUNY System Administration has provided, and continues to provide, for the Stage XVI debt service as part of the dormitory devolution process to campus self-sufficiency. The additional support has helped to avoid a significant increase in student rental rates that did not appear appropriate since there were no longer any revenue-generating beds available that were originally funded by this debt. Therefore, in the interest of not burdening students with an unjustified rate increase, Brockport does not agree with the State Comptroller's recommendation that the debt service payments should be reevaluated.

* Note 5

Dormitory Scholarship Program

On page 5, the third paragraph, references the Brockport dormitory scholarship program that provides extensive financial support to students. It further goes on to recommend that SUNY System Administration should reevaluate its debt service assistance to Brockport since the campus can afford to provide these awards.

The dormitory scholarship program is also important to Brockport, and it was developed at a time when there was excess bed capacity. The availability of vacant residential space became an ideal mechanism to improve student quality. This program is essentially cost free from the dormitory operating funds perspective, since empty beds would not generate any revenue. This program has been very effective at encouraging higher quality students to attend Brockport, allowing the campus to move into the SUNY Tier II category and fulfilling many of the quality plans in the initial Mission Review process. Further, these extra students in the residence halls pay tuition, fees, meal plans, etc. and are important to the financial health of Brockport. Eliminating these dormitory scholarships and returning to a situation of empty beds and lower revenues would be a major step backwards, especially as the campus has made significant strides to increase student quality with concomitant reductions in campus behavioral problems and vandalism—the latter now among the lowest in SUNY.

* Note 6

State University College of Agriculture and Technology at Cobleskill

The audit report comments favorably on Cobleskill's policies and actions to ensure its dormitories are a self-sufficient operation and found that only appropriate expenses are charged against its operations. The college appreciates the audit team and the Comptroller for highlighting that while the campus dormitory operation does have a negative net asset balance, that this balance is attributable to debt service it assumed responsibility for in the 1997 and the college, during the tenure of the current administration, has generate operat-

* See State Comptroller's Notes, Pages 25 - 26

ing surpluses in its dorm operations in each operating year. The report further notes that the college has been able over the past two years to reduce the negative net asset balance from $2,529,230 as of 6/30/02 to $1,158,064 as of 6/30/04, which is a decrease of 54% or $1,371,166. As shared with the audit team, the college projects the negative asset balance to be completely eliminated within three years.

State University College at Fredonia Response

It is true that SUNY Fredonia had residence hall operating losses for the two fiscal years ended June 30, 2004, but the primary reason isn't listed in the report. The campus has been paying debt service on Dormitory Authority bonds since the middle of 2002 to help finance a new residence hall that opens in fall 2006.

Additionally, Fredonia's losses were due primarily to $758,321 in debt service payments for bonds utilized for the design and construction of a new residence hall as part of the $23 million University Commons project. In should be noted that for the fiscal year ending June 30, 2005, Fredonia was 13 resident students above 100% capacity and generated an operating surplus of nearly $600,000. For the fiscal year ending June 30, 2006, Fredonia has projected an even larger operating surplus which may exceed $1 million.

* Note 7

State University College at Old Westbury Response

On page 3, Item C. - Results of Audit (second sentence), it is stated that one campus had a deficit *despite* having received a $6.5 million grant, which is referring to Old Westbury. The tone of that passage seems inappropriate. The use of the word "despite" connotes a show of contempt or defiance, neither of which was exhibited by the administration at the College. Substituting the word "after" for "despite" would not change the facts presented.

On page 4, Item C.1. – Fiscal Condition of Dormitory Operations (third paragraph, fourth sentence), a fairer presentation of the information would disclose that the weaknesses cited in the planning for the new dormitories occurred under a previous College administration prior to the current president's arrival in September 1999. Wording to that effect should be included in the final report.

* Note 8

In the College's response to the preliminary audit report draft it was indicated that the previous administration sought $47 million more to build additional dormitories and rehabilitate the old dormitories. After further deliberations, the current administration and SUNY System Administration agreed that it was not feasible for the College to go forth with the projects. As a result, the previous administration's plans regarding the additional dormitories were abandoned.

Other primary considerations for not pursuing the additional dormitories and the increased residential student population included:

- Old Westbury and System Administration agreed that the College should pursue a broader strategy of raising academic standards and admission criteria for students.

* See State Comptroller's Notes, Page 26

Once this change was enacted, it was acknowledged by both parties that a significant reduction in enrollment, which included residential students, would follow for a period of time until the new academic and enrollment initiatives took effect.

- Around the same period (December 2000), a Campus Development Plan was prepared by Gruzen Samton, a planning and architectural firm hired by the College. The Development Plan indicated that the estimated cost to renovate the old dormitories was $30.7 million. Also, the College obtained estimates from DASNY to rehabilitate the old dormitories ranging from $27.6 to $40 million. Regardless of which estimate was used, it became painfully evident that Old Westbury could not afford to do such extensive work. Faced with the prospect that building the extra dormitories was no longer realistic, the College significantly reduced its residential student goals.

On page 5, Item C.1. – Fiscal Condition of Dormitory Operations (end of the first paragraph), the conclusion in the last sentence ("..indicates serious fiscal problems with Old Westbury's dormitory operations") is somewhat misleading. * Note 9

As shown in the table below, the outlook for the College's dormitory operations is much more positive than presented in the audit report. The College experienced a $647,700 surplus from its operations in 2004-05 and expects another surplus in 2005-06 primarily because of the rental of its old dormitories to surrounding area colleges. It is the College's intention to reinvest the surplus into the cleaning, maintenance and upgrade of the buildings (including a fire system), and provide reserves for equipment replacement and major repairs. * Note 10

State University of New York College at Old Westbury Residence Halls Operations Cash Flow ($000)		
	Actual 2004-05	Projected 2005-06
Beginning Balance	(47.2)	600.5
Revenues	6,332.1	7,226.1
Expenditures	5,684.4	7,194.1
Surplus	647.7	32.0
Ending Balance	600.5	632.5

State University of New York at Albany Response

In Table 2, "Campuses with Positive Balances but Reduced Reserves", and the conclusions drawn from it in the report are somewhat misleading. The implication is that declining balances are due to an inability of campuses to meet their operating costs, when in fact, there may be other underlying reasons for the reductions. In the case of U Albany, the $8.4 million reduction in the "reserves" is largely due to a planned decision to supplement the capi-

* See State Comptroller's Notes, Page 26

tal project and equipment replacement programs by $6.4 million over the audit period. Funds were transferred from operating accounts to capital and equipment accounts. This transfer enabled U Albany to mark the first time in its history to completely renovate two residence halls during an academic year rather than the standard cycle of one per year. In addition, the campus implemented a program to replace remaining original 1960's era furnishings, window treatments, and other residence hall furniture that was in disrepair. These are the very renovation and asset preservation objectives lauded elsewhere in the study.

* Note 11

The overall tone of the audit recommendations assumes a perfect harmony between annual residence hall operating needs and the ability of the campuses to plan dormitory operating budgets and manage room revenues. A great deal of flexibility should be provided to campuses under the self-sufficiency model as they strive to remain competitive with peer institutions and meet their academic enrollment and program goals. While the campuses have done a remarkable job of maintaining self-sufficiency, there is a myriad of factors that influence spending and revenues that are beyond the campuses' control. For example, fringe benefit rates have increased more than 42 percent over the 2002-03 to 2005-06 budget years; utility commodity costs have experienced dramatic increases; DASNY overhead and insurance fees have escalated; and collective bargaining increases have greatly impacted salary costs. Under the self-sufficiency model, all of these costs are borne by student room rates at a time when campuses desire to become more price competitive with other colleges and universities.

Timing is an issue as well. Many of the fixed costs described above are not determined until after the room rate-setting period is concluded. Room rates -- for planning and housing sign-ups -- are established in February for the succeeding budget and academic year. The State budget, however, is enacted in April or thereafter and many of these other costs, especially utilities, don't become clear until a year later.

State University College of Technology at Alfred Response

In Table 2, "Campuses with Positive Balances but Reduced Reserves", the campus is aware and used operating reserve balances to rehabilitate Robinson/Champlin Hall ($620,000-this cost included rehab and also new furniture for the residence hall) that had been off-line for several years. The campus enrollment was such that it needed additional space to house students due to increased enrollment. During the rehabilitation, the campus had to address an asbestos problem due to a contractor error. This cost the campus an additional $200,000. The campus hopes to get this money back as the case is in SUNY legal proceedings. The campus will continue to monitor the reserve balances.

* Note 11

State University of New York at Binghamton Response

In Table 2; "Campuses with Positive Balances but Reduced Reserves"; Monitor the fiscal condition of campuses that reduce their reserves to achieve positive net asset balances to help ensure these campuses remain self-sufficient.

* See State Comptroller's Notes, Page 26

During the two years in question, the campus residence hall operations, cash receipts and program disbursements actually incurred a fund balance increase of $1.1 million. However, the following unusual circumstances contributed to the campus' decision to utilize the fund balance.

Binghamton University opened a 1,100 bed residential complex in two phases. Phase I of the complex opened fall 2003 and the final Phase II of the complex opened fall 2004. During the first phase, DASNY encountered significant problems with the contractor. The contractor was released and a new contractor was hired to complete the remaining phases. DASNY has held approximately $3.4 million for pending litigation with the first contractor that would have been used for equipment purchases. After consulting with SUNY System Administration and DASNY, the campus utilized $3.4 million of Residence Hall fund balance to purchase the equipment for both Phases. It is intended to replenish the fund balance when the litigation is completed.

* Note 11

In fiscal year 2002-03, the campus committed $700,000 above the required annual Rehabilitation and Repair Fund contribution. This was done after consultation with students and campus officials.

State University College at Purchase Response

Upon reviewing the Dormitory Self-Sufficiency audit performed by OSC an error has been made in their findings of Purchase College's reserve balance at June 30, 2004. An outstanding receivable balance due to the dormitory operations fund from the Purchase College Foundation Housing Corp. in the amount of $1,032,919 is not recognized. The full amount of the receivable was collected in fiscal year 2004-2005. The correct reserve balance at June 30, 2004 should therefore be approximately $1.8 million, reflecting a 2-year increase of approximately $400,000.

* Note 12

The campus agrees with the audit findings noting inconsistencies in the reporting of bed capacity and revenue generating occupancy levels. That problem was identified last semester and the campus is working towards a formal system of corrective procedures. Residence life is under new senior leadership and the campus has every confidence this will be resolved quickly.

2. Capital Project Planning

State University of New York at Binghamton Response

In reference to section C.2, page 7; and page 9, 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.

While the Binghamton five-year plans for 2002-03 and 2003-04 did not include specific DASNY identified projects, they identified general rehabilitation projects, the scope of which was intended to incorporate the DASNY recommendations. However, the Cam-

* See State Comptroller's Notes, Page 26

pus also felt that it needed a more detailed inspection of the Campus facilities than that which DASNY performs. Therefore, working directly with DASNY in November 2002, the Campus contracted with Trudeau Associates to perform a complete Facilities Condition Assessment. Using the information from this process, the Campus developed detailed projects for 0-5 years, 5-10 years, and 10 and beyond. The 0-5 year projects were incorporated into the five-year plan that was submitted in early 2005. DASNY also used the base project listing from Trudeau as a starting point in their inspection of Binghamton during the summer of 2005. Additional items identified during the DASNY inspection have been incorporated into the comprehensive capital improvements plan.

* Note 13

State University College at New Paltz Response

On page 7, first paragraph, "When they develop their five-year capital plans...", recommendations from DASNY are used as a resource for developing five-year plans. It is incorrect to state that the campus did not incorporate any of DASNY identified needs into their five-year plan. DASNY has suggested that New Paltz close and completely renovate one building at a time. This suggestion is not possible for a number reasons.

* Note 14

- The campus residence halls are, and have been at capacity for a few years. If a building were closed for renovation, the campus would incur a large loss of revenue, reducing the annual cash flow. It would also negatively impact the campus' ability to attract students that require campus housing. The loss of revenue combined with the cost of completely gutting an entire building would limit the campus to a major rehab of one or two buildings, while creating an operational deficit that would curtail any repairs.

- The campus has a renovation plan that addresses various building conditions. Addressable fire detection systems have been installed in all of the residence halls over the last three summers. The campus has almost completed a multi-year project to provide emergency generators to each hall. They have begun to replace windows, upgrade interior finishes, renovate bathrooms, etc, each summer as funds are available. The renovations are being performed based on critical needs and fund availability without impacting occupancy.

State University College at Old Westbury Response

In reference to page 7, Item 2. – Capital Project Planning (first paragraph, fourth sentence), "...seven other campuses (Binghamton, Buffalo College, New Paltz, Old Westbury, Alfred and Canton) did not incorporate any DASNY-identified projects..." While it is true that DASNY identified projects in the old dormitories, it was impossible to implement such projects since the College did not have funding nor were there plans to rehabilitate the old dormitories at that time. (See responses to Fiscal Condition of Dormitory Operations)

In reference to page 8, Item 3. – Accounting for Dormitory Revenues and Expenses (first paragraph, last two sentences). As indicated in our response to the preliminary audit report draft, internal controls have been implemented to prevent recurrence of future misclassifications of DIFR expenses.

* See State Comptroller's Notes, Pages 26 - 27

The campus is pleased to note that the OSC auditors found no exceptions when performing their tests for the majority of the audited areas. This is a result of an improved internal control program administered by the College at Old Westbury and monitored by SUNY System Administration.

State University College at Potsdam Response

During the fiscal year ended June 30, 2003, Potsdam transferred money from their repair reserve funds to the general dormitory operating fund to meet operating expenses, leaving Potsdam with a zero balance in their repair reserve fund. This statement is incorrect. Although Potsdam did move money from the repair reserve fund to the general dormitory operating fund in the year ended June 30, 2002, it did not make a similar transfer in the year ending June 30, 2003. The transfer that was made in 2002 was part of our 5 year Plan at that time. In addition, although a transfer was made from the repair reserve fund in 2002, at no time was the repair reserve fund reduced to zero. It should also be noted that the general dormitory operating fund made contributions to the repair reserve fund as of June 30, 2004 and June 30, 2005.

* Note 15

State University College of Technology at Alfred Response

In reference to the comment "Alfred did not incorporate any DASNY-identified projects in their capital plans, Alfred disagrees with this statement. Alfred's 2003/2004 5-year residence hall capital plan included residence hall projects that were on DASNY's identified needs assessments from a list prior to 2003/2004. For example, DASNY identified six residence halls that needed replacement windows a few years ago on a condition assessment, totaling approximately $2 million. Although this was identified a few years ago, the project began in 2003/2004 with the design phase and installation of windows in the remaining residence halls will be complete in the summer of 2007. This project was not on DASNY's identified need list submitted with the 2003/2004 five-year residence hall capital plan; however, the project was incorporated into the (and still is) a substantial portion of Alfred's five-year plan and absorbed much of the funds allocated to the residence hall repair & rehab fund. To say that Alfred did not incorporate any DASNY-identified project in the capital plan is inaccurate.

* Note 16

Alfred does review the DASNY identified needs and is an integral part of the 5-year planning process. The campus incorporates the DASNY identified needs as finances and time permit being mindful that many projects take several years to complete and some are quite costly. Although some identified needs may not show in the immediate 5 year plan, the DASNY identified needs may have to be pushed beyond five years because of limited resources. Furthermore, it should be noted that the campus also works with DASNY to resolve disagreements regarding needs identified by DASNY that the campus may not agree with.

* See State Comptroller's Notes, Page 27

State University College of Technology at Canton Response

On page seven of the draft audit report it states "seven other campuses (Binghamton, Buffalo College, New Paltz, Old Westbury, Alfred, Canton) did not incorporate any DASNY-identified projects, totaling $282 million, in their capital plans." SUNY Canton has included and has completed several of DASNY's identified needs in recent years. Not all projects identified by DASNY are necessarily a priority over other projects identified and planned by the campus. For example, Canton is currently working with NYPA to replace the aging heating systems (original systems) in the residence halls. Although not identified by DASNY, replacing the heating systems is a priority over work that is identified by DASNY such as replacing closets in students rooms (estimated cost $1 million), replacing floor tile that is not deteriorated (estimated cost $600,000), etc. The campus agrees that these new amenities would benefit students; however, they would serve no purpose unless they can efficiently provide hot water and heat for the buildings. In the recent Mission Review II document for Canton (www.canton.edu/provost/mission), this plan is further addressed on pages 34 and 35.

* Note 16

On page nine of the draft audit report, the campus would like to suggest for recommendations that DASNY should work more closely to identify necessary projects and help prioritize these projects.

3. **Accounting for Dormitory Revenues and Expenses**

SUNY System Administration Response

The fall utilization report and the year end revenue reports serve two different purposes. The utilization report concerns the capacity that campuses are using the residence halls to generate rental revenue. It is appropriate to exclude resident assistants, since there is no net revenue generated from these students. The year end revenue report is used to reconcile student billings. It is appropriate to include resident assistants, since these students are billed, even though they do not generate net revenue to dormitory operations. However, it is reasonable to expect the campus to be able to reconcile the fall beds reported in the year end revenue report back to the previously reported utilization survey.

State University of New York at Old Westbury Response

Internal controls have been implemented to prevent further misclassifications of DIFR expenses.

State University College at Potsdam Response

The second section of the report identified filled bed discrepancies between two reports. SUNY Potsdam agrees with this section of the report and has taken steps to eliminate this discrepancy. Specifically SUNY Potsdam will now account for rooms that are occupied but are not generating revenue due to scholarship awards, by utilizing the waiver account to offset the revenue account.

* See State Comptroller's Notes, Page 27

Recommendations

(OSC) 1. Identify System Administration subsidies/grants on individual campus dormitory operations financial reports.

(SUNY) 1. We concur with this recommendation. System Administration will modify the campus dormitory operations financial reports accordingly.

(OSC) 2. Evaluate the agreement with Brockport to provide debt service assistance, given that Brockport uses dormitory funds to award scholarship.

(SUNY) 2. We do not concur with this recommendation. The decision to supplement 50% of the debt service on the razed dormitory at Brockport was made based on the fact that it was demolished long before its useful life had expired due to significant design flaws. Since these flaws were not the fault of the Brockport campus, it was felt that the responsibility for the remaining debt service should be shared, especially since Brockport had no source of revenue to pay their share of the debt service on the demolished residence hall.

* Note 5

SUNY believes that it is appropriate to use dormitory rental revenue to fund dormitory scholarships for students. With self sufficiency in the residence hall program comes the responsibility for supporting the costs of all its programs, including scholarships. To provide scholarships from other sources such as state general fund tax support revenue or from unrelated revenue sources (e.g., tuition) would be inappropriate.

* Note 17

(OSC) 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 that steps the campus will take to eliminate its deficit and make its dormitory operations self-sufficient.

(SUNY) 3. We partially concur with this recommendation. Most campuses are already doing this. System Administration will ensure that campus responses have been signed by the president.

(OSC) 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.

(SUNY) 4. We partially concur with this recommendation. For the campuses required to submit a corrective action plan, System Administration will require that these campuses also submit a follow-up report at the end of the fiscal year identifying the actions that were implemented and the impact on dormitory operations.

* See State Comptroller's Notes, Pages 25 - 26, 27

(OSC) 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.

(SUNY) 5. To a limited extent, we partially concur with this recommendation. System Administration currently monitors the campus use of reserves, and recognizes that there are temporary circumstances under which it is appropriate to utilize reserves for one-time costs or as "financial bridges"; for example, while new beds come on line or existing beds are rehabilitated. These circumstances are not indicators that a campus is at risk of not being self-sufficient. In addition, campuses have the discretion of determining their own balance in their rehabilitation and reserve fund based on their project needs. Both the rehabilitation and repair reserve and dormitory operating funds are available for residence hall projects at any given time.

(OSC) 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.

(SUNY) 6. We do not concur with this recommendation. The report states that in the October 2002 DASNY condition assessment report there were $345 million in DASNY identified project needs, of which $282 million were not addressed in the following five-year capital plan. This is somewhat misleading. Following the DASNY condition assessment, each campus develops a capital plan from the DASNY identified projects coupled with their own developed needs assessment. In developing their capital plans, the campuses examine several factors such as health and safety, financial resources, and timing of projects. DASNY identified needs serves as a long-term list of projects, the feasibility of which must be continuously evaluated based on available funding, the emergence of more critical projects, the need to ensure that room rents remain competitive to the local student housing market and affordable to students, and other factors. However, we are pleased to note that the State Comptroller's audit found that campuses address all critical health and safety concerns in their capital planning.

* Note 18

As indicated in the responses from the selected campuses, certain campuses cannot afford to do many of the DASNY identified projects without imposing drastic room rental increases on the students. Other campuses may use the DASNY condition assessment in conjunction with their own studies to develop a total renovation program, which eventually would include the DASNY identified projects. Other campuses may not be able to shut down any residence halls to completely renovate one building at a time, as the loss of rental revenue would be too severe. In such cases, the campus would need to extend the DASNY identified projects far beyond the next five-year capital plan.

* See State Comptroller's Notes, Page 27

(OSC) 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 level and monitor its reserves.

(SUNY) 7. We do not concur with this recommendation. Funds available for rehabilitation and repair purposes consist of both rehabilitation and repair reserves and dormitory operating reserves funds. Establishing minimum reserve standards may require campuses to substantially increase room rental rates in order to operate at a surplus. This may not be practical in the current competitive academic and housing environments.

* Note 19

(OSC) 8. Ensure campuses properly record dormitory expenses, including charges such expenses to dormitory funds.

(SUNY) 8. We cannot concur with this recommendation as it is worded, since it implies that there is no review of expense recording. We agree that at least one campus on occasion may have recorded some expenses incorrectly. Improvements to internal controls have been implemented at several campuses. System Administration will continue to review for proper compliance.

* Note 20

(OSC) 9. Ensure campuses consistently report their filled beds on the Residence Hall Utilization Survey and the Revenue Reconciliation report.

(SUNY) 9. We cannot concur with this recommendation as it is worded, since it implies that there is no review of the utilization reports. However, the implementation of this recommendation will be communicated to all campuses by System Administration.

* Note 20

(OSC) 10. Annually verify bed capacity data on the Residential Hall Utilization Survey and Revenue Reconciliation report to ensure this data is complete and accurate.

(SUNY) 10. We cannot concur with this recommendation as it is worded, since it implies that there is no review of the utilization reports. The University Controller's Office now reviews the fall utilization report and reconciles this information to the revenue reconciliation as part of the year end revenue review process.

* Note 20

* See State Comptroller's Notes, Pages 27-28

State Comptroller's Notes

1. During the audit our staff had sufficient time to access the self sufficiency of SUNY dormitories in accordance with requirements under generally accepted government auditing standards.

2. The financial data we used during the fieldwork was provided to us by System Administration officials, and it was the same data used by System Administration officials to analyze and monitor campus dormitory fiscal status. Thus, we are concerned that Stony Brook's report had a major error and that System Administration officials have used incorrect information to monitor operations. According to the response, the information provided to us during our audit did not include the inventory of $934,240 at Stony Brook. Nevertheless, if the inventory (of $934,240) is added to Stony Brook's net assets, Stony Brook still sustained operating losses in both the 2002-03 and 2003-04 years and had a negative Net Asset Balance as of June 30, 2004. We have amended our report to include the inventory ($934,240) and adjusted Stony Brook's Net Asset Balance, as appropriate.

3. SUNY's table indicates that Stony Brook had nearly $1.6 million in Uncommitted Cash Available. However, this is incorrect because it includes $934,240 in inventory. (Also, see State Comptroller's Note 2.) According to SUNY, the inventory consisted of *consumables*, such as *cleaning supplies*. These inventories (non-cash assets such as cleaning supplies) should not be classified as Uncommitted Cash Available to the campus. Thus, Stony Brook officials are in error.

4. Account 074-DZ is the dormitory program's Rehabilitation and Repair fund, which is separate from the dormitory program's Operations fund. During the audit period, Stony Brook officials made significant allocations to the Rehabilitation and Repair fund to pay for future repair and rehabilitation projects. Further, we acknowledge that campus officials can transfer such funds to the Operations fund to pay current operating expenses. However, Stony Brook officials made no such transfer by the end of our audit period (June 30, 2004). Consequently, the dormitory Operations fund had a significant deficit as noted in the financial statements provided to us and as detailed in our report. Thus, Stony Brook officials are in error.

5. We were aware that Brockport received financial relief from System Administration to pay the debt service on a dormitory that was demolished in 1992. At that time and thereafter, there was no longer any revenue generated to pay the debt service in question. However, in more recent years, Brockport's dormitory program has become more financially self-sufficient. Furthermore, for the 2002-03 and 2003-04 years, Brockport awarded $1.4 million in dormitory scholarships (34 percent of the total dormitory scholarships awarded statewide by SUNY). Given the improvement in Brockport's financial condition and the Board of Trustees policy (issued in 1997) requiring campus dormitory operations to be self-sufficient, SUNY should formally

evaluate the amounts of debt service relief provided by SUNY in light of the large volume of optional scholarships offered by Brockport.

6. We did not recommend that Brockport eliminate the dormitory scholarship program. Rather, we recommended that SUNY evaluate the debt service assistance provided to Brockport since Brockport is forgoing significant amounts of Dormitory revenue due to the scholarships. (Also, see State Comptroller's Note 5.)

7. We are pleased that Fredonia has improved the financial status of its dormitory program for the periods subsequent to our audit.

8. We revised certain wording in our report to reflect SUNY comments.

9. We have amended our report to note the fiscal condition of the College at Old Westbury as of June 30, 2004.

10. We audited the financial status of Old Westbury's dormitory operations for the period July 1, 2002 through June 30, 2004. We are pleased that Old Westbury officials have improved the financial status of the dormitory program for the period subsequent to our audit.

11. We acknowledge that valid underlying reasons can exist for a campus to significantly reduce the operating reserves of its dormitory program. However, as noted in our report, System Administration officials did not require campuses that had significant operating losses (and therefore had significantly reduced their operating reserves) to develop formal corrective action plans. Thus, System Administration officials had limited assurance that the campuses in question would maintain sufficient operating reserves into the future.

12. The financial data we used during the audit fieldwork was provided to us by System Administration officials, and it was the same data SUNY purportedly used to analyze and monitor campus dormitory fiscal status. The outstanding receivable of $1 million was not included in the original or amended statements provided to us by System Administration officials during the audit. This is the second campus for which a major error was found in the financial reports that were provided to us. Nonetheless, we have deleted Purchase from our presentation of this matter in the report. In addition, System Administration officials should determine why material omissions are occurring in the financial statements submitted by the campuses.

13. The plan referred to by SUNY at Binghamton officials was prepared subsequent to our audit work. We are pleased that items identified during DASNY's 2005 inspection have been incorporated into the comprehensive capital improvement plan for Binghamton that was released subsequent to our audit period.

14. DASNY's 2002 Condition Assessment Report for New Paltz identified the need for major rehabilitations for ten dormitories, including building finishes and infrastructure items. However, New Paltz's five-year capital plan for 2003-2008 identified no major rehabilitation projects for completion during that period. Also,

New Paltz officials provided us with their Facilities Project Plan 12/04-9/05, which included several minor projects that were underway at the time of our review. However, that plan, as well, did not identify major rehabilitation projects. Consequently, we maintain that New Paltz did not include DASNY-recommended projects on the capital plans we reviewed for the period of our audit.

15. Although the College at Potsdam's repair reserve fund did have a positive balance after the transfer in October 2002, the funds remaining in the account were already committed to projects. Therefore, as cited in the report, there were no uncommitted funds available for unanticipated repairs at Potsdam's dormitories as of June 30, 2003. We have amended our report to clarify this issue.

16. We compared the recommended rehabilitation and repair projects from DASNY's 2002 Condition Assessment Report to the five-year capital plans developed for the dormitories for the period 2003 through 2008. None of the needs identified by the 2002 Condition Assessment were included on the capital plan for the period 2003-08. We did not determine if recommendations from previous Condition Assessment Reports were incorporated into the plan for 2003-08. Moreover, we continue to question how System Administration verifies that campuses adequately address the needs identified by the Condition Assessment Reports timely.

17. Our audit does not recommend that SUNY fund dormitory scholarships from state general fund tax support or from other revenue sources unrelated to the dormitory program.

18. We acknowledge that there are a number of legitimate reasons why certain projects listed on the DASNY Condition Assessment Reports are omitted from dormitory capital plans. However, because nearly 82 percent (based on dollar amounts) of the projects recommended by DASNY were omitted from the dormitory capital plans, we continue to question whether SUNY officials used the Condition Assessment Reports appropriately. Moreover, as indicated by officials from the College of Technology at Canton, System Administration should ensure that DASNY works more closely with campus officials to identify necessary capital projects and to help campus officials prioritize those projects.

19. The purpose of a reserve is to allow campuses to strike a balance between using saved funds and borrowed funds when the need arises to make major repairs. We understand SUNY's point that funding reserves could increase current room rental rates, however, inadequate reserves could cause substantial increases when major repairs are needed. We believe that SUNY needs to strike a balance that will help control major increases in the future.

20. Our report provides a context for understanding that this recommendation does not imply that there is no review. We are pleased that SUNY officials are implementing the recommendation.