State of New York
Office of the State Comptroller
Division of Management Audit
and State Financial Services

STATE UNIVERSITY OF NEW YORK

THE ROLE AND OPERATION OF AUXILIARY SERVICES CORPORATIONS

REPORT 98-S-38

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Comptroller

State of New York
Office of the State Comptroller

Division of Management Audit and State Financial Services

Report 98-S-38

Dr. John W. Ryan
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Dear Dr. Ryan:

The following is our report on the role and operation of Auxiliary Services Corporations at State University of New York campuses.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. We list major contributors to this report in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

December 31, 1999

Executive Summary

State University of New York
The Role and Operation of Auxiliary Services Corporations

Scope of Audit

Auxiliary Services Corporations (ASCs) are campus-based, not-for-profit corporations established to provide education-related services to State University of New York (SUNY) campus communities, including faculty, staff and students. Currently, ASCs operate at 24 of the 29 SUNY campuses. ASCs contract with campuses to provide, either directly or through subcontracts, food services, vending services, campus stores, conference services and other ancillary services. These contracts incorporate SUNY Guidelines for ASC operations (Guidelines).

SUNY System Administration's Office of Finance and Business (Office) was previously responsible for overseeing ASC operations. However, SUNY now allows campuses greater autonomy in managing their operations and more authority to oversee ASCs. ASCs have also been encouraged to pursue entrepreneurial efforts so that any net operating surpluses could be used to support campus initiatives not funded by the State. For fiscal year 1997-98, the 24 ASCs reported providing $5 million in program support to the campuses.

We addressed the following questions about the role and operation of SUNY ASCs for the period July 1, 1995 through January 31, 1999:

- Are ASCs operating in accordance with contract terms and SUNY Guidelines?
- Have ASCs instituted innovative approaches or entrepreneurial practices in their operations as encouraged by "Rethinking SUNY?"

Audit Observations and Conclusions

The ASCs we visited at five SUNY campuses were generally operating in compliance with contract terms and the Guidelines, except in the following cases: the revenues arising from the Stony Brook ASC's pouring rights agreement with a soda vender were to bypass the ACS's accounting records and be deposited directly in a foundation account; the Delhi College ASC is maintaining insufficient working capital; and Oswego College ASC is providing services not disclosed in its contract. Our survey of all 24 ASCs found that most have not made significant changes in their operations to become more entrepreneurial. However, we did note that the University at Stony Brook's pouring rights agreement with a soda vendor was a major entrepreneurial initiative presenting significant revenue.

Stony Brook's ASC entered into a ten-year agreement with a soda vendor which grants the vendor exclusive pouring rights on campus in exchange for $2.5 million in sponsorship fees and at least $3 million in commissions. However, the revenue will not appear in ASC's accounting records, as it should to provide proper financial accounting and disclosure. Instead, the revenues are being deposited into an account of the Stony Brook Foundation, the campus not-for-profit fund raising arm, so the Foundation can use some of the money to issue athletic and academic scholarships. ASC officials believe this is acceptable because the ASC is not directly awarding the scholarships; a practice that would be prohibited by the Guidelines. We recommend that SUNY System Administration, in conjunction with the campuses, develop policy and guidelines to address methods to obtain, administer and account for the funds needed to support sports and athletic scholarships. (See pp. 5-8)

According to the standard ASC contract, an ASC's current assets should equal or exceed twice its current liabilities. However, the ASC at Delhi has not met this standard in two years; in fact, the ASC's independent auditors reported in June 1998 that there is substantial doubt about whether the ASC can continue as a going concern. We recommend that this ASC establish a plan to achieve the minimum working capital ratio within three to five years. At Oswego, we found that the ASC was providing some services not listed in its contract, and was delivering food service off-campus at a local country club. We recommend that this ASC amend its contract to identify all its services and service exchanges. We also recommend that SUNY System Administration amend the guidelines to clarify whether providing food services off-campus is appropriate. (See pp. 8-10)

Two SUNY-wide professional organizations are now facilitating efforts to identify potential entrepreneurial pursuits within the ASCs. We recommend that SUNY System Administration share best practices by distributing the results of these efforts to the campuses. We also recommend that ASCs establish strategic plans that focus on increasing revenue and reducing losses. Unprofitable operations at the campuses we visited include Delhi's food services, Oneonta's College Camp, Stony Brook's University Club and Oswego's Fallbrook Recreational Facilities. (See pp. 13-16)

Comments of SUNY Officials

SUNY System Administration and campus officials agree with most of our recommendations. They indicate that actions have been or will be taken to implement them.

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Introduction

Background

Auxiliary Services Corporations (ASCs) are campus-based, not-for-profit corporations established to provide education-related services to State University of New York (SUNY) campus communities, including faculty, staff and students. ASCs commonly provide, either directly or through subcontracts, the food services, vending services, campus stores, conference services, and other ancillary services requested by campus administration. ASCs also provide funding and support to the campuses for an array of programs, such as meal subsidies for Resident Assistants and Resident Directors, student recruitment, orientation, lectures and commencement activities.

ASCs have been operating on SUNY campuses since 1951. Currently, there are ASCs operating at 24 of SUNY's 29 State-operated colleges as listed in Exhibit A to this report. The University Center at Binghamton, the College at Old Westbury, the College of Environmental Science and Forestry, Empire State College, and the College of Optometry do not have ASCs. Empire State College does not maintain a campus; the other four campuses either provide auxiliary services directly, or arrange to have them provided by the private college with which they are affiliated.

For fiscal year 1997-98, the 24 ASCs reported combined net operating surpluses (revenues in excess of expenses from operations) of $5.2 million. Nineteen ASCs reported net operating surpluses ranging from $6,800 to $909,000. The other five ASCs reported net operating deficits (expenses in excess of revenues from operations) ranging from $38,000 to $292,000. The 24 ASCs reported providing $5 million in program support to the campuses. As of the end of fiscal year 1997-98, the ASCs had combined net assets of $64.7 million.

The operations of each ASC are guided by a Board of Directors, which includes representatives of the campus administration, faculty, and students. ASCs generally operate under standard five-year contracts with SUNY campuses. These contracts specify the services the ASCs will provide to the campuses, and incorporate SUNY Guidelines for ASC Operations (Guidelines). The Guidelines name the services and activities ASCs are allowed to provide, as well as those they are not allowed to provide. Services and activities which the Guidelines specifically prohibit for ASCs include: performing activities that are contrary to SUNY or campus policies; awarding athletic scholarships or athletic grants-in-aid; purchasing real estate for investment or speculation; employing or paying faculty or staff personnel to perform services not directly related to the operations of the ASC; furnishing campus public safety ordinarily financed by campus operations; actively soliciting gifts or bequests; providing furnishings for faculty or student housing; or financing campus capital construction projects not included within the space made available to the ASC. ASCs maintain their own accounting records, and most use personal computer-based systems to do this. The Guidelines require that each ASC have an annual audit of its financial statements performed by a certified public accounting firm.

SUNY System Administration's Office of Finance and Business (Office) has long been responsible for overseeing ASC operations. However, the Office relinquished some control to the campuses when the 1997-2002 contracts were executed. SUNY System Administration is not a party to the current agreements, as it had been in the past. The new standard agreement recognizes that ASCs are expected to pursue entrepreneurial efforts, and that campuses have been delegated greater authority to oversee ASC operations. This change reflects concepts included in the *Rethinking SUNY* report to SUNY Trustees in October 1995. This report called for increased autonomy for SUNY campuses. It also recommended that campuses encourage entrepreneurship by allowing ASCs to generate excess revenues which could be used to support campus initiatives not funded by the State. This concept was reinforced in the December 1995 SUNY Board of Trustees Report to the Governor which recommended that SUNY become more entrepreneurial and self-sufficient.

The Office retains responsibility for setting the Guidelines and for obtaining and reviewing the annual audited financial statements of the ASCs. In addition, the Office acts as a liaison between campuses and ASCs for resolving policy issues. College presidents have assumed ASC oversight responsibilities that include approving ASC budgets, program expenditures and subcontracts. The Vice Chancellor for Finance and Business has the authority to require pre-approval of an ASC's subsequent year budget when his office identifies a material weakness in its financial statement review process.

Audit Scope, Objectives and Methodology

We audited the role and operations of the Auxiliary Services Corporations at SUNY campuses for the period July 1, 1995 through January 31, 1999. The objectives of our performance audit were to determine whether the ASCs are operating in accordance with contract terms and SUNY guidelines and to determine whether the ASCs have instituted any innovative approaches or entrepreneurial best practices in their operations.

To accomplish our objectives, we interviewed SUNY System Administration officials, reviewed and analyzed the current ASC contracts, reviewed SUNY guidelines for ASC operations, examined the most recent ASC audited financial statements and supporting schedules and reviewed the minutes from recent SUNY Auxiliary Services Association (SASA) meetings. We also reviewed reports from the Office of the State Comptroller's audits of the ASCs at SUNY Brockport (Report 97-S-31, issued on October 30, 1998), and at SUNY Plattsburgh (Report 97-S-55, issued on December 11, 1998). We surveyed all 24 ASCs about their operations. We judgmentally selected and visited the ASCs at five SUNY campuses: Oneonta, Delhi, Fredonia, Oswego and Stony Brook. At each campus, we reviewed the meeting minutes of the ASC's Board of Directors, the annual reports, financial records, subcontractor agreements and other relevant supporting documentation. We also interviewed ASC and campus officials.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the ASCs which are included within the audit scope. Further, these standards require that we understand the ASCs' internal control structure and compliance with those laws, rules and regulations that are relevant to the operations which are 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 that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Response of SUNY Officials to Audit

A draft copy of this report was provided to SUNY System Administration and campus officials for their review and comment. Their comments have been considered in the preparation of this report and are included as Appendix B.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University of New York shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Compliance With Contract Terms and SUNY Guidelines

We found that the five selected ASCs that we visited are generally operating in accordance with contract terms and SUNY guidelines. However, the following are certain of the issues and concerns that were identified during our field visits:

- Proceeds of at least $5.5 million resulting from a ten-year pouring rights agreement between Stony Brook's ASC and a soda vendor were to bypass the ASC's accounting records and be deposited into a Stony Brook Foundation account for use to support sports and provide athletic scholarships. This is contrary to financial accounting standards.

- Delhi's ASC has not maintained sufficient working capital to be in compliance with SUNY's corporate equity guideline on working capital.

- The contract between the College at Oswego and its ASC does not disclose that leasing vehicles and administering student health insurance are among the services being provided by the ASC. This is inconsistent with Section 2 of the contract which states that activities and services must be described (in the contract). This ASC also contracts to provide services at a country club, although the ASC's stated purpose is to provide on-campus services.

These and other issues, which are more fully discussed in the following report sections, require clarification and direction from SUNY System Administration as well as certain corrective measures on the part of ASCs.

Stony Brook ASC Pouring Rights

Effective July 1, 1998, the SUNY Stony Brook ASC entered into a sponsorship agreement with a soda vendor to grant the vendor exclusive pouring rights and related marketing, advertising, and promotional activities for the sale of non-alcoholic beverages on the campus. The agreement extends over a period of ten years and guarantees the ASC $2.5 million in sponsorship fees in return for pouring rights. In addition, the ASC is guaranteed minimum vending program sales commissions of $3 million and other nominal annual amounts for various types of campus activities and media support, over the life of the contract.

The agreement between the vendor and the ASC states that the vendor will pay the ASC all of the considerations mentioned above. However, we found that Stony Brook ASC's first invoice to the vendor issued on December 9, 1998 directed that the vendor's remittance of $950,000 be made payable to the Stony Brook Foundation (Foundation), a non-State accounting entity whose primary function is to solicit and manage gifts, grants and endowments for the benefit of the campus it serves. The Foundation was not a party to the agreement.

SUNY and ASC officials explained to us that Stony Brook plans to use the soda vendor agreement proceeds to support National Collegiate Athletics Association (NCAA) Division I sports and to provide athletic scholarships on the campus. The arrangement to direct the vendor's remittances to the Foundation instead of the ASC was made to avoid noncompliance with the SUNY ASC guidelines which specifically prohibit ASCs from awarding athletic scholarships or athletic grants in aid. In this regard, the Foundation, which is not prohibited from using funds in this manner, was designated as the sole administrator of the proceeds from the pouring rights agreement. Thus, all of the proceeds from the pouring rights agreement will be recorded in the Foundation's accounting records and appear on its financial statements. We do not believe that this treatment of the pouring rights revenue is appropriate for financial accounting purposes.

The Financial Accounting Standards Board requires that the financial statements of not-for profit entities should be presented fairly in conformity with generally accepted accounting principles (GAAP). GAAP requires, among other things, that all revenue earned by an entity must be recorded in its accounting records and disclosed in its financial statements. Therefore, we believe that all of the proceeds from the pouring rights agreement should be remitted to the ASC, in accordance with the agreement terms, recorded on the ASC's accounting records and disclosed in its financial statements. Proper presentation of the ASC's financial statements is particularly important because the ASC's financial statements are incorporated into both SUNY's and the State's financial statements. Also, full disclosure of revenues earned in the ASC's records and financial statements gives the campus community the ability to see the outcome of the ASC's performance and the opportunity to assess the ASC's capacity to further contribute to the campus community.

(In response to our audit report, Stony Brook officials state that current plans call for a substantial portion of the proceeds over the entire term of the agreement with the soda vendor to be used for academic scholarships. Stony Brook officials also state that the deposit of the revenues into the Foundation accounts is necessary because the Foundation is the only entity authorized to award scholarships on the campus. They add that depositing and disbursing the funds from a single entity simplifies fund management and ensures compliance with NCAA requirements. Officials also indicate that they see no conflict with the Guidelines since the ASC is not awarding the athletic scholarships or the grants-in-aid.)

Auditors' Comments: While the ASC is not awarding the athletic scholarships or grants-in-aid, it is also true that the funds for the awards arise directly from the activities and contract of the ASC and not the Foundation. Therefore, from an accounting perspective, the funds should be accounted for in the records of the ASC. As our report recommends, policy clarification and guidelines are necessary to address the acceptable methods for obtaining, administering and accounting for funds for these purposes.

We also found that the pouring rights agreement contains a confidentiality provision precluding the ASC from disclosing any of the terms or conditions of the agreement. Stony Brook officials advised us that they believe, under this provision, that all of the financial terms of the agreement, including contract consideration, are confidential and exempt from disclosure under New York's Freedom of Information Law. However, it is OSC Counsel's opinion that the consideration under this agreement, as would be the case with other governmental contracts, is public information.

(In response to our audit report, Stony Brook officials state that the agreement is technically not a government contract. However, they add that they have treated the agreement as a public record under the Freedom of Information Law and have approved the vendor's request for "trade secret" treatment for a portion of the agreement.)

Auditors' Comments: We reiterate our Counsel's opinion that consideration under this agreement is public information as it would be for any other governmental contract.

The agreement also states that the vendor will be granted advertising space for its products on existing permanent signage owned by SUNY in the baseball, football, softball and soccer facilities located on the campus. Thus, this State-owned and maintained signage has become part of a commitment between the ASC and the vendor. We believe guidance should be provided by SUNY System Administration about the use of State assets as consideration in agreements negotiated by ASCs and about the use and limitations of confidentiality provisions in such agreements. These steps are necessary to ensure that the State's interests and public disclosure requirements are adequately addressed.

As SUNY continues to pursue NCAA Division I sports and athletic scholarships on the campuses, SUNY System Administration, in conjunction with the campuses, should develop policy and guidelines that address methods to raise and administer the funds needed to carry out these activities. Under such a framework, for example, it may be acceptable for the Stony Brook ASC to record the proceeds from the pouring rights agreement into its accounting records and then transfer to the Foundation an amount equal to the proceeds. By using this method, the ASC would adhere to generally accepted accounting principles.

(In response to our audit report, Stony Brook officials state that they have requested that System Administration provide Stony Brook with additional policy guidance as to whether funds of this type should be directed to the ASC or the campus-related foundation. Officials suggest that the best alternative may be to make the campus-related foundation a party to the agreement and provide for the vendor to make payments of scholarship revenue to the campus-related foundation.)

Auditors' Comments: System Administration policy clarification and guidelines are necessary in this area.

As a result of our audit, SUNY System Administration officials have indicated that they will undertake a review of SUNY's policy on Foundation activities and the use of University facilities by commercial enterprises.

Delhi ASC Working Capital

The standard SUNY auxiliary services contract includes a working capital equity guideline that calls for ASCs to maintain current assets equal to at least two times current liabilities. In other words, its current ratio should be at least two to one. Delhi's ASC has reportedly not met the working capital guideline in the past two years, as shown in the following table:

Fiscal Year	Current Assets	Current Liabilities	Current Ratio
1996-97	$338,127	$194,609	1.7 to 1
1997-98	$421,803	$545,957	0.8 to 1

The ASC is in this position because of recurring substantial operating losses which primarily pertain to food services and are addressed later in this report. The ASC does not have sufficient current assets to meet current liabilities, much less to provide reserves for inflationary increases, or for emergencies. After auditing the ASC's June 30, 1998 financial statements, the ASC's independent auditors reported that there is substantial doubt about the ability of the ASC to continue as a going concern. To maintain its operations, the ASC has mortgaged the real estate it owns adjacent to the Delhi campus: about 465 acres of land, the Turf Education Center, and a house occupied by the College President. The ASC has two mortgages: the first obtained in November 1995 and secured by the Turf Education Center, and the second obtained in September 1997 and secured by the President's house. The ASC has also secured a line of credit against its inventory and accounts receivable. As of June 30, 1998, the ASC owed $487,499 in principal on its mortgages, and another $300,000 in principal on its line of credit with a local bank.

The SUNY Guidelines are silent as to whether it is appropriate for an ASC to mortgage property. However, the possibility that this ASC may not be able to meet its mortgage payments can be a concern, as the real estate that has been mortgaged includes the ASC's Turf Education Center, which is leased by the College and is used to support the College's curriculum.

We believe that the ASC should establish, as required in the corporate equity guidelines, a plan to achieve the minimum working capital ratio within a three-year to five-year time frame. ASC officials indicated that they will establish such a plan. We also believe that SUNY System Administration's Vice Chancellor for Finance and Business should exercise his authority to pre-approve this ASC's future budgets until such time as the material weakness no longer exists. He has indicated to us that he will do this.

Oswego ASC Unlisted Services and Off-Campus Services

Section 2 of the standard auxiliary services agreement states that an ASC will operate the activities and services described in contract Exhibit B. We noted that the contract between the College at Oswego and its ASC does not disclose the leasing of vehicles for use by campus officials and the administration of student health insurance, although these services are provided by the ASC. All ASC services should be included in the contract so that the responsibilities of the ASC are clear. ASC and College officials have indicated they will amend their contract to include these services.

According to both ASC and College officials, the leasing of vehicles for use by campus officials is a service the ASC provides for the College in exchange for the College's providing garbage pick-up for the ASC. However, there is no written agreement between the ASC and the College, and no other documentation of any sort, formalizing this arrangement. Further, no cost comparison was available from either

College or ASC officials to indicate the value of the exchange arrangement to each party. The total vehicle lease expense incurred by the ASC averages $43,000 each year, but the value of the garbage pick-up service is unknown. An ASC official stated that he had previously made inquiries of two garbage collection companies for cost estimates. He had no documentation of these estimates, but he thought they were for about $40,000, based on his recollection. We believe the ASC and the College should formalize the exchange arrangement, and identify the exchange in their contract when they amend it. ASC and campus officials have informed us of their intention to formalize this arrangement.

Oswego's ASC has a contract to provide dining and snack services on the premises of the Oswego Country Club. ASC officials indicate that the contract has created employment for approximately 25 students, and it categorizes this activity as part of its food service operation. The contract term is November 1, 1997 through October 31, 2000.

SUNY System Administration officials have determined that it is appropriate for the ASC to contract for these services because the Guidelines do not explicitly disallow such an activity. However, a contract for off-campus services appears to be contrary to the ASCs' stated purpose of providing auxiliary services at the campus for the benefit of the campus community in harmony with the educational mission and goals of the campus. We believe that SUNY System Administration should revise the Guidelines to specifically state whether services such as those provided at the Oswego Country Club are appropriate and can be conducted at other than campus premises.

Recommendations

To SUNY System Administration:

1. In conjunction with the campuses, develop policy and guidelines that address the methods for obtaining, administering and accounting for funds needed to carry out NCAA Division I sports and athletic scholarships.

2. Amend ASC Guidelines to clarify whether, and pursuant to what procedures, an ASC should:

    - mortgage property which may be integral to campuses' educational missions or operations,

Recommendations (Cont.'d)

- provide food services operations at off-campus premises such as a country club,
- include State-owned assets as part of the consideration negotiated with vendors, and
- utilize confidentiality provisions as part of the contract terms and conditions negotiated with vendors.

3. Exercise authority to pre-approve the Delhi ASC budget until such time as the ASC achieves compliance with required working capital ratios.

   (System Administration officials generally agree with recommendation number 1 through recommendation number 3. They indicate that steps have been or will be taken to implement them.)

To the University at Stony Brook:

4. Record proceeds from the ASC agreement with a vendor for pouring rights into the accounting records of the ASC.

   (Concerning recommendation number 4, University at Stony Brook officials suggest as an alternative that the Foundation be made a part to the agreement with the soda vendor and that the vendor pay scholarship revenue to the Foundation. Officials add that they have requested System Administration officials to provide policy guidance in the area. System Administration officials respond that fund raising for campus intercollegiate athletics will be reviewed in conjunction with a review of campus foundation activities.)

   <u>Auditors' Comments</u>: Until policy guidance is available, we continue to recommend that Stony Brook record the revenues in the ASC's accounts.

Recommendations (Cont.'d)

5. Adhere to confidentiality provisions of the pouring rights agreement in a manner that is consistent with required public disclosures for governmental contracts.

   (Concerning recommendation number 5, University at Stony Brook officials maintain that the agreement is not a governmental contract. However, they state that, consistent with the Freedom of Information Law, they have approved the vendor's request for "trade secret" treatment for a portion of the agreement. System Administration officials respond that University Counsel will be asked to review the use of confidentiality provisions in ASC contracts.)

   Auditors' Comments: We reiterate our Counsel's opinion that consideration under this agreement is public information as it would be for any other governmental contract.

To the College at Delhi:

6. Establish a plan for the ASC to achieve the minimum required working capital ratio within a three-year to five-year time frame.

   (College at Delhi and System Administration officials concur with recommendation number 6. College at Delhi officials indicate that formulation of a plan to address it has begun.)

To the College at Oswego:

7. Amend the ASC contract to cover all services including the administration of student health services and the leasing of vehicles for use by campus officials.

8. Formalize the agreement exchanging ASC leasing services for garbage pick-up and identify the value assigned to each of these services.

   (College at Oswego officials indicate that recommendation number 7 and recommendation number 8 will be implemented. System Administration officials concur with these recommendations and the College response.)

Entrepreneurial Endeavors

The current ASC contracts reflect SUNY's shift toward greater campus autonomy and emphasize entrepreneurial operations for ASCs. The efforts on the part of Stony Brook to generate pouring rights proceeds through its ASC contract with a soda vendor is certainly a primary example of being entrepreneurial in generating significant new revenues to support the campus community. However, the results of our survey of all 24 ASCs generally show that ASCs have not instituted many changes in their operations to become more entrepreneurial. In response, Office officials explained and provided documentation showing that preliminary efforts are underway to develop and identify entrepreneurial pursuits which campuses and ASCs could consider implementing. Although the Office is not leading or guiding these efforts because of the shift toward greater autonomy for campuses, Office officials actively participate in the two SUNY-related voluntary professional organizations which are taking the lead in these efforts: the State University Business Officers Association (SUBOA) and the SUNY Auxiliary Services Association (SASA).

SUBOA is a voluntary professional organization whose members are campus Vice Presidents for Finance and Administration. SUBOA established a Workgroup on Entrepreneurship which conducted a survey of campus business officers and ASC executive directors and general managers in January 1998. This survey sought information about ASCs' current or contemplated entrepreneurial endeavors. Although the survey responses were compiled, nothing has yet been done to summarize or analyze the responses because the project leader is no longer available. SASA is a voluntary professional association of ASC executive directors and general managers. SASA membership meets regularly to share information, develop working relationships, and promote educational opportunities for members. SASA recently formed a task force for Creating Entrepreneurship which is charged with identifying opportunities for new campus ventures and developing training programs on entrepreneurship for association members. Office officials have indicated that they will provide all the campuses with the results of SUBOA's and SASA's efforts. We encourage these officials to disseminate this information, and to update the Guidelines as necessary.

Our audit found that most ASCs, including the five we visited during this audit, have had at least one unprofitable operation during the fiscal years 1995-96 through 1997-98. Also, in our recent audits of the ASCs at Brockport (Report 97-S-31, issued October 30, 1998) and Plattsburgh (Report 97-S-55, issued December 11, 1998), we noted that each ASC had money-losing operations that needed to be addressed. We believe that the entrepreneurial shift of the ASCs should include a focus on strategic planning for addressing unprofitable operations. Such a focus would be consistent with SUBO's definition of "entrepreneurship" as saving money on expenses or generating revenue.

We found that the transformation of Stony Brook ASC's convenience store provides a good example of using strategic efforts to address unprofitable operations. Prior to December 1998, the Stony Brook convenience store (known as *Basix*) was located in the basement of the Student Union. *Basix* had losses of $34,000 in 1996, $63,000 in 1997 and $156,000 in 1998. ASC officials attributed the *Basix* operating losses to both decreased traffic in the Student Union and a poor product mix in the store. Therefore, they moved the store to the Student Activity Center where there is greater customer traffic, updated the product line and renamed the store the *Seawolves Marketplace*. As a result, ASC officials expect that operating losses will be reduced significantly.

Other unprofitable operations have been, or are being, strategically addressed at the five campuses we visited. Areas being addressed include refreshment carts and printing operations at Stony Brook; the campus store, college lodge, video games, alumni house and conference center at Fredonia; the campus store at Oswego; and the food service at Oneonta.

In the remainder of this report, we note examples of unprofitable operations at the campuses we visited for which the ASCs should develop and implement strategic plans.

Delhi Food Service

The food service operation at Delhi has lost more than $850,000 in the last three years, leading the ASC to its unstable financial position. This ASC operates the food service directly.

ASC managers and College administrators attribute the food service losses to problems the College has experienced with declining student enrollment and low housing populations, factors that are generally outside the ASC's control. Fall enrollment figures dropped from 2,098 students in 1995 to 1,898 in 1996 and 1,893 in 1997. Enhanced recruiting efforts by the College resulted in improved enrollment for Fall 1998 at 2,046 students. The ASC is hoping enrollment increases will result in a positive net outcome in the food service operation. However, this seems unlikely, since the ASC lost money on food service in each of the above years, regardless of enrollment figures. The ASC has used some cost-cutting measures, and has experimented with changes in the delivery of food service to try to maximize revenues. The College has recently established a task force charged with improving operations. The task force will consider the feasibility of subcontracting the food service operations to a third party, among other alternatives. We agree that the task force is an important step in addressing this problem and setting appropriate strategic direction for food service operations.

Oneonta College Camp

Oneonta's ASC purchased almost 200 acres of land in the 1950s, and built what is known as the College Camp (Camp) on it in the 1960s. The Camp includes a lodge and cabin, as well as 70 additional acres of undeveloped land adjoining the property, which the ASC purchased in 1988. The Camp is not in operation, and is a drain on the ASC's resources. Reported net carrying costs for the Camp have accumulated to over $97,000, or about $20,000 per year, since the Camp closed in January 1994. The ASC has been subsidizing these costs through its other operations and by reducing its net equity. The funds expended on the carrying costs are funds which could have been available to support other initiatives and/or to reduce prices for other goods and services.

The ASC Board and management have studied the Camp issue, but have not developed a strategic plan for eliminating its associated losses. The Camp has been a routine topic of discussion at Board meetings, and numerous task forces and committees have worked over the years on the Camp issue. One particular obstacle to finding a solution for the Camp is the College's observatory situated on a one-acre parcel of land within, and surrounded by, the Camp property. The observatory is used by various academic departments, especially the Physics Department, for its Astronomy curriculum. The land on which the observatory is located was deeded to the College in 1989. According to both College and ASC officials, the presence of the observatory, and the College's need to access the facility, creates a major obstacle for the Camp's disposition. Task force and committee reports and other documentation on file demonstrate that there has been interest in reopening the Camp within the campus community. However, no task force, committee, or student organization has proposed viable funding proposals to support the estimated $150,000 in repairs needed to reopen the Camp, and the estimated $80,000 for annual operating costs. Board minutes after November 1997 do not reflect any new initiatives for resolving the problems with the Camp. We believe the ASC should develop and implement a viable strategic plan for making the Camp self-sustaining and beneficial to the College. If this cannot be achieved, the ASC should take steps necessary to dispose of the Camp.

Stony Brook University Club

The University Club (Club) is a restaurant and lounge on the Stony Brook main campus that serves lunch and dinner. The Club has lost almost $190,000 over the past three years. The Club is operated by the main campus food service contractor. Although the Club is open to students, student use of the Club is minimal. According to ASC officials, student meal cards are not accepted for payment at the Club, and many students do not even know it exists. However, University officials believe the Club is needed despite the lack of student participation and the operating losses. They state that the Club provides a nice atmosphere for faculty dining and can also be used to entertain visiting dignitaries and prospective professors.

The Board minutes for the past three years do not mention the Club or that the ASC is subsidizing the Club's operation. Based on our review of these minutes, it appears that no actions are planned to change the focus of the Club or to improve its profitability. However, an ASC Board member told us that the Board plans to review this operation in the near future. ASC officials estimate the 1998-99 loss will be about $85,000. We believe the ASC should develop a strategic plan to reduce Club losses and to eliminate the need to subsidize this operation. Some alternatives the ASC could consider to improve the Club's profitability include promoting and advertising the Club to the students, and allowing students to use their meal plan cards for meals in the Club.

Oswego Fallbrook Recreational Facilities

The ASC at Oswego operates the Fallbrook Recreational Facilities (Fallbrook) located near the College campus. This property includes a ski lodge and a barn that has been converted to serve as a rustic reception hall. These facilities are primarily used for meetings, conferences, weddings and other large gatherings which are catered by the ASC. In fiscal years 1995-96, 1996-97 and 1997-98, Fallbrook losses were $76,610, $77,376 and $82,049, respectively. The ASC has no immediate plans to change the Fallbrook operations. The current operating policy is that outside parties pay a fee to use the facilities, but that College-related parties can use them free of charge. In the past three years, the average amount collected per year has been around $2,000 because almost every organization in the area is related to the College in some way. We believe the annual losses incurred by the Fallbrook facilities are a drain on other ASC operations and resources. ASC officials should develop a strategic plan to reduce or eliminate Fallbrook losses.

Recommendations

To SUNY System Administration:

9. Continue to actively participate in the efforts of SUBOA and SASA.

10. Identify and disseminate information on entrepreneurial pursuits for campuses to consider implementing and update the Guidelines accordingly.

    (System Administration officials respond that they will implement recommendation number 9 and recommendation number 10.)

To the College at Delhi:

11. Utilize the already established Task Force to set appropriate strategic direction for providing future food services that operate without losses.

    (College at Delhi officials agree to implement recommendation number 11. System Administration officials agree with this recommendation and the College response.)

To the College at Oneonta:

12. Develop a strategic plan for making the Camp self-sustaining and beneficial to the College community. If this is not obtainable, take steps necessary to dispose of the Camp.

    (Concerning recommendation number 12, College at Oneonta officials state that they are actively considering how best to either reopen the Camp or to sell the property. The believe our report overstates the present condition of the Camp as a reported $43,000 of current year revenues from timber sales exceed the annual carrying cost. System Administration officials agree with this recommendation and the College response.)

Recommendations

To the University at Stony Brook:

13. Develop and implement a strategic plan for eliminating the losses associated with the operation of the Club.

    (Concerning recommendation number 13, University at Stony Brook officials respond that some losses may occur as result of the decision to operate the Club. They point out that they know of no such clubs at other campuses that could be considered profitable. However, officials indicate that they will continue to monitor the financial performance of the Club and, where necessary, identify additional creative ways to improve performance and benefits. System Administration officials agree with this recommendation and the campus response.)

To the College at Oswego:

14. Develop and implement a strategic plan to eliminate losses associated with the operation of the Fallbrook Recreational Facilities.

    (Concerning recommendation number 14, College at Oswego officials respond that Fallbrook is an important asset and that its use by community members at little or no cost is equivalent to providing additional resources to the campus community. System Administration officials agree with this recommendation and the campus response.)

    Auditors' Comments: The losses associated with Fallbrook are substantial. While the losses support certain members of the campus community, they also lessen the ability of the ASC to provide other contributions to the rest of the community.

SUNY Auxiliary Services Corporation Locations

University Centers:

Albany
Buffalo
Stony Brook

Health Science Centers:

Brooklyn
Syracuse

University Colleges:

Brockport
Buffalo
Cortland
Fredonia
Geneseo
New Paltz
Oneonta
Oswego
Plattsburgh
Potsdam
Purchase

Specialty Schools:

Farmingdale
Maritime
Utica/Rome

Technology Schools:

Alfred
Canton
Cobleskill
Delhi
Morrisville

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50 YEARS SERVICE, PRIDE & EXCELLENCE

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November 19, 1999

Mr. Jerry Barber
Audit Director
Office of the State Comptroller
The State Office Building
Albany, New York 12236

Dear Mr. Barber:

In accordance with Section 170 of the Executive Law, we are enclosing the comments of SUNY System Administration regarding the draft audit on the Role and Operation of Auxiliary Services Corporations, State University of New York (98-S-38).

Sincerely,

Donald G. Dunn

Donald G. Dunn
Executive Vice Chancellor

Enclosure

State University of New York
The Role and Operation of
Auxiliary Services Corporations
98-S-38

General Comments

Page 6, Paragraph 2

(SUNYSB) Current plans call for a substantial portion of the proceeds over the entire term of the agreement with the soda vendor to be used to support academic scholarships for Stony Brook students. The draft report implies that all of the proceeds of this agreement will be used to support NCAA Division I sports and to provide athletic scholarships on the campus. This is not the case.

Stony Brook disagrees with the depiction that its motivation for depositing funds into its campus-related foundation was to avoid the provisions of the SUNY Auxiliary Service Corporation Guidelines (ASC Guidelines). The use of proceeds from this contract to fund academic and athletic scholarships for Stony Brook students was approved by campus administration and is consistent with the goals and objectives of the Campus. In fact, proceeds from this agreement were deposited into the campus-related foundation by the ASC because the foundation is the only entity authorized to award scholarships on the Stony Brook campus. Having all scholarship funds deposited and disbursed from a single entity simplifies the management of these funds. It also helps the campus to ensure compliance with NCAA regulations governing the administration, accounting and reporting for its intercollegiate athletics program, including athletic scholarships and grants-in-aid. As indicated previously, Stony Brook sees no conflict with Item VII.A.2. of the ASC Guidelines, since the ASC is not awarding athletic scholarships or grants-in-aid.

Page 13, Paragraph 2

(SUNYSB) Stony Brook is pleased that the Comptroller's staff has recognized the successful efforts its ASC has made to improve the financial performance of many of its service operations.

Compliance with Contract Terms and SUNY Guidelines

Recommendations (Pages 10-11)

To SUNY System Administration

(OSC) 1. In conjunction with the campuses, develop policy and guidelines that address the methods for obtaining, administering and accounting for funds needed to carry out NCAA Division I sports and athletic scholarships.

(SUNY) 1. The NCAA has established strict rules and regulations governing the administration and accounting for member institutions intercollegiate athletics programs, including grants-in-aid to athletes. Campuses must adhere to such rules. Fundraising for campus IA programs will be reviewed in conjunction with System Administration's review of SUNY's policy on the use of University facilities by commercial enterprises and campus foundation activities.

(OSC) 2. Amend ASC Guidelines to clarify whether, and pursuant to what procedures, an ASC should:

- mortgage property which may be integral to campuses' educational missions or operations,
- provide food-services operations at off-campus premises such as a country club,
- include State-owned assets as part of the consideration negotiated with vendors, and
- utilize confidentiality provisions as part of the contract terms and conditions negotiated with vendors.

(SUNY) 2. As exemplified by *Rethinking SUNY*, State University has encouraged campuses to embrace a more entrepreneurial spirit within a policy framework that gives more autonomy to campuses. Consistent with that framework, it may not be appropriate to delineate specific activities in which the ASCs, are, or are not, allowed to participate. However, System Administration recognizes that policy guidance given to ASC managers should underscore that activities are allowed only where they are consistent with the campus mission and the express purposes of each corporation and where these activities do not unduly jeopardize the financial soundness of the ASC and the campus.

System Administration will work with the campuses to undertake a review of SUNY's policy on the use of University facilities and State-owned assets by commercial enterprises and on off-campus activities. As part of that review, University Counsel's office will be asked to render an opinion on the use of confidentiality provisions in ASC contracts with vendors.

(OSC) 3. Exercise authority to pre-approve the Delhi ASC budget until such time as the ASC achieves compliance with required working capital ratios.

(SUNY) 3. In a December 18, 1998 letter to the Interim President of SUNY College of Technology at Delhi, the Vice Chancellor for Finance and Business notified the campus of the necessity of his approval of CADI's 1999-2000 fiscal year budget. The letter also required CADI to establish a plan to achieve the minimum equity requirements within a three-year to five-year time frame. System Administration reviewed and approved CADI's 1999-2000 budget submission as the corporation's revisions to the food service program provided an integral avenue for achieving corporate fiscal stability.

To the University at Stony Brook

(OSC) 4. Record proceeds from the ASC agreement with a vendor for pouring rights into the accounting records of the ASC.

(SUNYSB) 4. We agree that proceeds from contracts where the ASC is the contracting party should be recorded into the accounting records of the ASC. We have requested that System Administration provide Stony Brook with additional policy guidance as to whether funds of this type should be directed to the ASC or to the campus-related foundation. We suggest that the best alternative is to approach the soda vendor and request an amendment to the contract that would make the campus-related foundation a party to the agreement and provide for the vendor to make payments of scholarship revenue directly to the campus-related foundation.

(SUNY) 4. As stated in our response to recommendation 1, fundraising for campus intercollegiate athletics will be reviewed in conjunction with System Administration's review of campus foundation activities.

(OSC) 5. Adhere to confidentiality provisions of the pouring rights agreement in a manner that is consistent with required public disclosures for governmental contracts.

(SUNYSB) 5. The referenced contract is technically not a government contract. It is an agreement between two private corporations, neither of which is covered by the Freedom of Information Law ("FOIL"). Consistent with applicable law as interpreted by Campus Counsel, Stony Brook's records access officer nevertheless treated this agreement as a public record under FOIL and approved the vendor's request for "trade secret" treatment for a portion of the agreement on the basis that "disclosure would cause substantial injury to the competitive position" of the vendor (Public Officers Law, §87(2)(d)). Accordingly, Stony Brook believes it has adhered to the confidentiality provisions in a manner consistent with State Law.

(SUNY) 5. University Counsel will be asked to review the use of confidentiality provisions in ASC contracts.

<u>To the College at Delhi</u>

(OSC) 6. Establish a plan for the ASC to achieve the minimum required working capital ratio within a three-year to five-year time frame.

(SUCTD) 6. CADI concurs with the recommendation and has begun to formulate a plan to address this requirement.

The CADI management has made a significant change in the manner in which the major revenue generating program (i.e. food service) is operated in fiscal year 1999-2000. This initial step will hopefully bring to an end the multi year losses the Corporation has experienced as a result of its food service delivery methodology. This change was acknowledged positively by the Vice Chancellor for Business and Finance upon his review of the Corporation's 1999-2000 Budget. In his approval letter to Interim President, he stated "We concur with the corporation's revision to the food service program as an integral avenue towards achieving corporation fiscal stability."

In addition, a committee comprised of the President, Treasurer, Director of Finance and three at-large members of the Board of Directors will be formally charged with the responsibility of developing the appropriate plan to achieve the required working capital ratio within the prescribed time frame.

(SUNY) 6. We agree with the recommendation and the College's response.

<u>To the College at Oswego</u>

(OSC) 7. Amend the ASC contract to cover all services including the administration of student health services and the leasing of vehicles for use by campus officials.

(SUCO) 7. Auxiliary Services will amend the contract to include these activities.

(OSC) 8. Formalize the agreement exchanging ASC leasing services for garbage pick-up and identify the value assigned to each of these services.

(SUCO) 8. Auxiliary Services will formalize this agreement with the College.

(SUNY) 7,8. We agree with the recommendations and the College's responses.

Entrepreneurial Endeavors

Recommendations (Page 16)

To SUNY System Administration

(OSC) 9. Continue to actively participate in the efforts of SUBOA and SASA.

(SUNY) 9 System Administration will continue to participate as a member of SASA's "Creating Entrepreneurship" task force and SASA's regularly scheduled meetings. System Administration will keep apprised of the activities of SUBOA's workgroup on entrepreneurship.

(OSC) 10. Identify and disseminate information on entrepreneurial pursuits for campuses to consider implementing and update the Guidelines accordingly.

(SUNY) 10. System Administration will disseminate the recommendations of the SUBOA and SASA work groups to all campuses in addition to any appropriate programs that have sponsorship of the National Association of College Auxiliary Services. If any such recommendations warrant Guidelines changes, System Administration will process such revisions.

To the College at Delhi

(OSC) 11. Utilize the already established Task Force to set appropriate strategic direction for providing future food services that operate without losses.

(SUCTD) 11. The College and CADI concur with the need to formulate realistic strategic direction for operation of food services at Delhi without incurring financial loss. Accordingly, the College will appoint a Task Force to develop and implement the necessary corrective strategies to ensure that the food service operation will function at a legitimate profitability level.

(SUNY) 11. We agree with the recommendation and the College's response.

To the College at Oneonta

(OSC) 12. Develop a strategic plan for making the Camp self-sustaining and beneficial to the College community. If this is not obtainable, take steps necessary to dispose of the Camp.

(SUCO) 12. We believe the statements made in the body of the audit report are factually accurate concerning the College Camp and the previous attempts of various committees to arrive at a workable solution to this matter. However, the draft audit tends to overstate the impact of the carrying cost of maintaining the College Camp in its present condition. The annual cost of retaining this property in its present shutdown mode is less than 1/3% of the annual revenue of OAS; and the net corporate equity of OAS has increased dramatically rather than diminished during this period. For the current year, $43,000 revenue from timber sales exceeds the annual carrying costs.

The OAS Board of Directors is currently actively considering how best to either reopen the Camp or sell the property.

(SUNY) 12. We agree with the recommendation and the College's response.

To the University at Stony Brook

(OSC) 13. Develop and implement a strategic plan for eliminating the losses associated with the operation of the Club.

(SUNYSB) 13. Stony Brook believes that it is in the best interest of the campus community to continue to operate the existing University Club as the only formal, "sit-down" dining venue on campus for students, faculty, staff and visitors and as an appropriate location for special University events, at least until other appropriate facilities become available. Many colleges and universities operate such clubs to benefit their campus communities. We know of none that could be considered "profitable". Given the experiences we are aware of at other universities, the campus recognizes that some losses may occur as a result of the decision to continue operating the Club. Campus and ASC management have worked together over the course of the past three years to implement programs aimed at improving the financial performance of the Club and minimizing or eliminating any associated losses. Several of the strategies that the management team has considered and/or implemented over this period are:

- Menu Changes
- Increased Retail Prices on Lunch Menu
- Modified Operating Hours
- Advertising
- Increasing the Use of the Club for Catered Events
- Special Dining Times Linked to University Sporting and Cultural Events

Over the last two years, the actions taken have been successful and losses associated with the operation of the Club have declined significantly. Stony Brook and the ASC will continue to monitor the financial performance of the Club and, where necessary to identify additional creative ways to improve the performance of this operation and to increase the benefits it provides to the campus community.

(SUNY) 13 We agree with the recommendation and the Campus response.

To the College at Oswego

(OSC) 14. Develop and implement a strategic plan to eliminate losses associated with the operation of the Fallbrook Recreational Facilities.

(SUCO) 14. Community use of Fallbrook is an important asset and we believe that the use of the facility by members of our community at little or no cost is equivalent to the Corporation providing additional resources to the college community.

(SUNY) 14. We agree with the recommendation and the College's response.