January 18, 2000

Mr. Robert King
Chancellor
State University of New York
State University Plaza
Albany, NY 12246

Re: Report 99-F-61

Dear Mr. King:

Pursuant to the State Comptroller’s authority as set forth in Article V, Section 1 of the State Constitution and Article 2, Section 8 of the State Finance Law, we have reviewed the actions taken by State University of New York (SUNY) College at Brockport Auxiliary Service Corporation (BASC) officials as of January 12, 2000, to implement the recommendations contained in our audit report, SUNY Brockport Auxiliary Service Corporation Selected Financial Management Practices (Report 97-S-31). Our report, which was issued on October 30, 1998, examined BASC’s management practices pertaining to the establishment of a bookstore, the operation of conference center and catering services, and the provision of miscellaneous program support.

Background

The SUNY College at Brockport (College) is a college of arts and sciences which offers programs at both the baccalaureate and masters levels. During the 1998-99 academic year, the College reported an enrollment of about 6,222 undergraduate and 1,833 graduate full and part-time students. Revenues collected for the Fall and Spring terms during the 1998-99 fiscal year for tuition, room and board, and other agency revenues totaled about $49.6 million.

BASC is a campus-based, not-for-profit corporation. BASC provides the College with vending machine, catering, bookstore, telecommunications, video recreation, and conference center services. BASC has a Board of Directors which includes administrative, faculty and student representatives from the College. For the fiscal year ended May 31, 1999, BASC revenues from operations totaled about $6.7 million and expenses totaled about $6.5 million.
In 1996, BASC decided to build a new bookstore on the College campus. The vendor which had been operating the College bookstore provided $1 million to fund the capital construction of the new building. In return, in order to permit the vendor to recover this $1 million, BASC agreed to accept reduced commissions from the vendor over a payment period of ten years. The new bookstore opened in the Fall of 1997. The vendor’s investment was identified as a “gift” in College public announcements and in the SUNY Brockport Foundation’s accounting records and financial statements.

**Summary Conclusions**

In our prior audit, we identified weaknesses in the selected financial management practices we reviewed. For example, we found that BASC did not have the authority to enter into a capital construction contract to erect a building on State property. We also found that BASC did not competitively bid the bookstore construction contract, or submit it to the State Comptroller for approval, as required by State law. In addition, we questioned whether it is fair from either a public accountability or a financial reporting perspective to refer to the vendor’s investment in the bookstore as a “gift” because the vendor will recoup its investment by paying reduced commissions to BASC. We also noted that liabilities related to the bookstore and certain costly services warranted continued monitoring.

In our follow-up review, we found that the College, BASC and SUNY System Administration have taken action to address the matters identified in our prior report.

**Summary of Status of Prior Audit Recommendations**

Of the seven prior audit recommendations, College, BASC and SUNY System Administration officials have implemented six recommendations and one recommendation is not applicable.

**Follow-up Observations**

**Recommendations - To the College and BASC**

**Recommendation 1**

Obtain State authorization and approvals for construction on State land and use competitive bidding procedures, as required by State laws.

**Status - Not Applicable**

**Agency Action** - College and BASC officials concur with this recommendation. However, the officials advised us that they have not undertaken any new construction projects on State land since our audit report was issued, therefore they have not yet had the opportunity to implement this
recommendation. When a future project is undertaken, the officials told us that they plan to obtain the proper approvals and authorizations, and will use competitive bidding procedures, where appropriate.

**Recommendation 2**

Acknowledge in future public announcements that BASC will accept a reduced commission over a ten-year period to repay the vendor for its investment in the bookstore.

**Status - Implemented**

**Agency Action** - BASC officials told us that there have not been any additional press releases related to the bookstore since our audit report was issued. However, the officials noted that BASC’s current certified financial statements dated as of May 31, 1999, contain a note disclosing the reduced commission. The officials said that a copy of this report has been placed in the College’s library, where it is available for review by students and faculty.

**Recommendation 3**

Review the entire bookstore transaction with SUNY System Administration to ensure it has been properly recorded in the accounting records and presented in the financial statements. If necessary, make accounting adjustments.

**Status - Implemented**

**Agency Action** - BASC officials told us that meetings and telephone conferences took place between BASC officials, SUNY System Administration officials and BASC’s independent auditors to discuss the appropriate accounting for and presentation of the bookstore transaction on BASC’s records and financial statements. As a result of these discussions, BASC recorded on its 1997-98 financial statements the $1 million provided by the vendor as a liability classified as Deferred Revenue to be amortized to income on a straight-line basis over the ten-year contract period. Thus, the liability would be reduced to zero at the end of the ten-year contract period. As a corresponding entry to the liability, BASC recorded a related expense identified as “contribution to the State University” since the improvements to the bookstore are in substance the property of the State University of New York.

**Recommendation 4**

Continue to monitor the financial impacts associated with BASC program funding and Conference Program initiatives.

**Status - Implemented**
Agency Action - BASC officials advised us that its Controller prepares monthly spreadsheets that detail BASC’s actual and budgeted revenue and expenses by cost center. These spreadsheets are reviewed by the Executive Director and discussed with the appropriate individual operational managers. Furthermore, the Controller said that budgeted to actual financial data is presented at the semi-monthly BASC Board of Directors meetings, thus allowing the Board to make informed decisions about campus program funding as well as other BASC expenditures. In addition, a conference center review team recently issued a report outlining new recommendations about the best possible campus uses for this facility. The report considered a wide variety of factors, including financial impacts, in developing its conclusions. We were told that the College President’s staff will review the report and decide on a course of action for the center.

**Recommendation 5**

Disclose in BASC financial statements the reduced commissions liability created by the bookstore transaction.

Status - Implemented

Agency Action - The notes to BASC’s certified financial statements as of May 31, 1999, include the following disclosure regarding the bookstore commitment:

“The BASC has contracted with an independent third-party to operate a bookstore on the campus of SUNY Brockport. The BASC receives a commission based on gross sales with certain guaranteed minimums. Under the terms of the contract, the third-party made payments totaling $1,000,000 to fund construction of a new bookstore. As a result of this payment, the term of the contract was extended to July, 2007 and the commission rate and guaranteed amount payable to the BASC was reduced.”

**Recommendations - To SUNY System Administration**

**Recommendation 6**

Determine the proper accounting to be followed for transactions which record vendor investments in a campus while the vendor is also under financial obligation to the campus for the delivery of goods and services.

Status - Implemented

Agency Action - SUNY System Administration officials advised us that SUNY and its ASCs are required to maintain their financial records in accordance with generally accepted accounting principles (GAAP), and that the ASC’s financial information is included in SUNY’s consolidated financial statements. They further noted that the accounting for
transactions such as the one included in our recommendation is prescribed by GAAP. Accordingly, they would expect that such transactions would follow GAAP in the accounting records and financial statements.

Recommendation 7

Work with BASC and College officials to examine the bookstore transaction to ensure it is properly reflected in accounting records and financial statements. Make corrections where necessary.

Status - Implemented

Agency Action - See agency action under recommendation number 3.

Major contributors to this report were Bill Nealon, Karen Bogucki and Joanne Kavich.

We thank the management and staff of the College, BASC and SUNY System Administration for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Jerry Barber
Audit Director

cc: Charles Conaway
Paul Yu