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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

July 29, 2010

Dr. Nancy L. Zimpher
Chancellor
State University of New York
State University Plaza
Albany, NY 12246

Re: Report 2010-F-3

Dear Chancellor Zimpher:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the State University of New York (SUNY) to implement the recommendations contained in our audit report, *Space Leasing Practices At Selected Campuses* (Report 2007-S-81).

Background, Scope and Objectives

The State University of New York (SUNY) consists of 64 autonomous campuses including 29 State-operated campuses, 5 statutory colleges affiliated with private universities, and 30 community colleges. Campuses are located throughout the State, and SUNY maintains a central administrative office (System Administration) in Albany.

System Administration provides general oversight of SUNY operations. This includes ensuring SUNY campuses are good stewards of their resources, whether those resources are provided through State tax dollar support or generated through tuition or other charges. Such oversight may also involve ensuring adherence to appropriate SUNY and New York State policies, procedures, statutes, rules, regulations, or determining that campuses have appropriate and sound budget and planning practices in place.

As of March 2008, SUNY's 29 State-operated campuses had 136 leases for space. The estimated cost of these leases over their life was about \$370 million. The lengths of the leases vary, but they typically have terms of about ten years. In our initial audit, we selected and visited the University at Buffalo (Buffalo), the University at Stony Brook (Stony Brook), the Upstate Medical Center in Syracuse (Upstate) and the Downstate Medical Center in Brooklyn (Downstate). These four campuses had 82 of the 136 active space leases throughout SUNY as of March 2008. The cost of the leases at the four campuses was \$38.8 million for the two years ending March 31, 2008.

Our initial audit report, which was issued on February 12, 2009, determined if the Buffalo, Stony Brook, Upstate and Downstate campuses had adequate policies for assessing whether to use campus facilities or to lease premises to meet space requirements. Another objective was to determine if the occupancy of leased space by these campuses coincided with their lease payments. We found that Buffalo had formal, written policies for assessing space needs and evaluating the leasing option. While Stony Brook had formal policies pertaining to space leasing, it needed to expand those policies to include the evaluation of existing available space. Neither Upstate nor Downstate had formal, written policies for assessing space needs and evaluating the leasing option. With a few exceptions, we also found that there was no documentation supporting that campuses evaluated using existing campus space before entering into leases. In addition, we concluded that Stony Brook and Upstate officials needed to better document practices to formally assess the needs and options for leased space. Also, Stony Brook and Upstate needed to better ensure that occupancy of leased space coincides with lease payments. The objective of our follow-up was to assess the extent of implementation as of June 30, 2010, of the four recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that SUNY officials have made progress in correcting some of the matters identified in our initial report. However, additional improvements are needed. Of the four prior audit recommendations, two recommendations have been implemented, one recommendation has been partially implemented and one recommendation has not been implemented.

Follow-up Observations

Recommendation 1

Upstate and Downstate should establish formal, written policy for program and operational space requirements and related leasing decisions. Stony Brook should expand its existing policy to include the evaluation of existing available space.

Status - Implemented

Agency Action - Upstate and Downstate both have established a formal, written policy for program and operational space requirements and related leasing decisions in March and January 2010, respectively. In April 2008, Stony Brook expanded its existing policy to include the evaluation of existing available space.

Recommendation 2

Upstate, Downstate, Buffalo and Stony Brook should make sure that they document analyses of space requirements as well as the evaluation of leasing space versus using existing space.

Status - Partially Implemented

Agency Action - To determine if each campus implemented this recommendation, we selected the most recent lease from each of the four campuses for review. Stony Brook officials documented their analysis of space requirements as well as the evaluation of leasing space versus using existing space. Upstate officials indicated they performed an analysis, but were not able to provide documentation to support that such analysis had been performed. Since our original audit, Buffalo has not entered into any new leases. Therefore we have no basis to determine whether Buffalo implemented this recommendation.

Downstate entered into one new property lease, which was necessitated by the bankruptcy of the original lessor. SUNY officials advised us that the space covered by this lease had been continuously occupied and therefore should not be considered as a new lease. However, we have since become aware that all of the space in question has not been continuously occupied. This lease is the subject of a separate audit by the Office of the State Comptroller.

Recommendation 3

Stony Brook and Upstate should ensure that the commencement of lease payments coincides with the occupancy of the leased space to the extent possible. Periods of vacancy should be minimized.

Status - Implemented

Agency Action - Stony Brook and Upstate each entered into three new space leases since the end of our original audit. According to campus officials, the first Stony Brook space was occupied in the third month of the lease, after modifications were completed. We find the modification work to be an acceptable reason to delay occupancy. Campus officials told us that the two other Stony Brook spaces were occupied upon commencement of the leases. Upstate campus officials advised that two Upstate spaces were also occupied on the same date as the leases became effective. According to the officials, the third Upstate lease resulted from assignment of a new lease number to a continuously occupied space.

Recommendation 4

Stony Brook, Downstate, and Upstate need to make sure that they maintain the SUNY Construction Fund space inventory database in an accurate manner.

Status - Not Implemented

Agency Action - Campus officials advised that they continue to update the database once a year, as was done during our original audit. Based on the uses of the information, officials do not believe that a more frequent update is warranted. They also note that neither the audit report nor the recommendation specify the frequency that updating should occur. We note that when the database is updated only once a year, any changes in leased property status occurring between annual updates will appear on the database only at the time of the annual update. More frequent updates would serve to increase the accuracy of the database and thereby increase its value as a space management tool.

Major contributors to this report were Karen Bogucki and Donald Collins.

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

Very truly yours,

A handwritten signature in blue ink, reading "Edward J. Durocher". The signature is fluid and cursive, with the first name "Edward" and last name "Durocher" clearly legible.

Edward J. Durocher, CIA
Audit Manager

cc. Mr. Michael Abbott, State University of New York
Mr. Thomas Lukacs, Division of the Budget