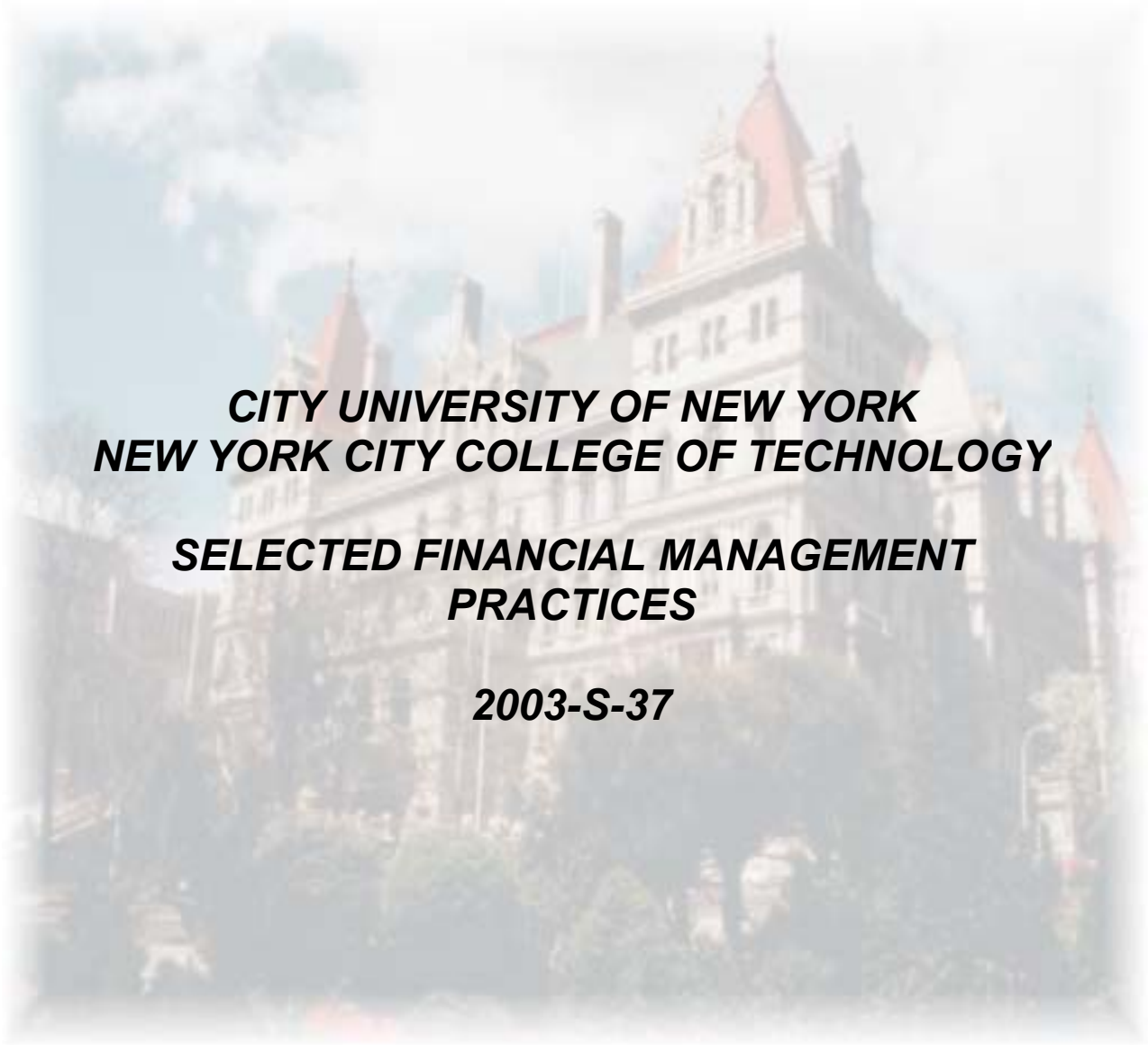
A REPORT BY THE NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

Alan G. Hevesi
COMPTROLLER



CITY UNIVERSITY OF NEW YORK
NEW YORK CITY COLLEGE OF TECHNOLOGY

SELECTED FINANCIAL MANAGEMENT PRACTICES

2003-S-37

DIVISION OF STATE SERVICES

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110 State Street

11th Floor

Albany, NY 12236

Alan G. Hevesi
COMPTROLLER

Report 2003-S-37

Dr. Matthew Goldstein
Chancellor
City University of New York
535 East 80th Street
New York, New York 10021

Dr. Russell K. Hotzler
President
New York City College of Technology
300 Jay Street
Brooklyn, New York 11201

Dear Chancellor Goldstein and President Hotzler:

The following is our audit report addressing selected financial management practices at New York City College of Technology for the period September 1, 2001 through December 31, 2003.

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. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of State Services

February 2, 2005

EXECUTIVE SUMMARY

CITY UNIVERSITY OF NEW YORK
NEW YORK CITY COLLEGE OF TECHNOLOGY
SELECTED FINANCIAL MANAGEMENT PRACTICES

SCOPE OF AUDIT

New York City College of Technology (College), located in Brooklyn, is one of 11 senior colleges in the City University of New York (CUNY). The College is the only CUNY school that specializes in technology-related curriculums, offering 50 career-specific disciplines to more than 11,000 students (approximately 7,000 full-time and 4,000 part-time). For the 2002-03 school year, the College collected about $30 million in revenue. The College's gross payroll for calendar year 2003 was $36.4 million, and its nonpayroll expenditures for the 2002-03 fiscal year totaled about $5 million.

Our audit addressed the following question about selected financial management practices at the College for the period September 1, 2001 through December 31, 2003:

- Does the College have effective internal controls over selected payroll, purchasing and tuition revenue collection functions?

AUDIT OBSERVATIONS AND CONCLUSIONS

We found that improvements are needed in certain payroll and purchasing controls, and significant improvements are needed in the College's tuition collection practices.

To prevent the loss or theft of undelivered paychecks, any paycheck not delivered within 30 days is to be returned to the Office of the State Comptroller. If the check is subsequently claimed by the proper recipient, it can be revalidated and reissued. However, at the time of our audit, 105 of the 108 undelivered paychecks being held by the College were more than 30 days old. In fact, 65 of these paychecks were more than 100 days old, and 15 were more than 200 days old. Many of these paychecks related to adjunct work performed by full-time instructors; contrary to College policy, some instructors decline these second paychecks and "bank" the time instead, reducing their full-time teaching workload

by one course at some point in the future, when they have accumulated enough banked time. We recommend that the College enforce its policy and not allow faculty members to bank time for work performed in an adjunct capacity. We also recommend that the College return undelivered paychecks after 30 days, and maintain a written record of the checks that are being held (there was no written record of the more than 100 paychecks being held at the time of our audit observations). (See pp. 9-11)

We also determined that controls need to be strengthened over other payroll areas, and over the purchase of goods and services. For example, many former College employees were still listed on the College's payroll register, including nine individuals who were deceased. The presence of such names on the payroll register increases the risk of payroll fraud. We also found that the College does not comply with certain provisions of the State's Prompt Payment Law, which requires interest payments to be made to vendors when they are not paid within 30 days of delivering goods or services and submitting an accurate invoice. The College does not accurately determine when the 30-day payment period begins, and as a result, the processing time for its payments may have been understated in many instances. If this processing time was understated, vendors may not have received all the interest they were due under the Prompt Payment Law. (See pp. 12-13, 16-18)

According to CUNY guidelines, students with unpaid tuition balances from prior semesters should not be allowed to register for new classes. However, we found that such students are allowed by the College to register for new classes. We identified several such students who also failed to pay for the new classes, and now owe tuition for more than one semester. During our audit period, the College referred more than $1.6 million in unpaid tuition accounts to collection agencies. To improve its collection of tuition payments, we recommend that the College comply with CUNY guidelines and not allow students to register for new semesters when they have unpaid balances from prior semesters. We also found that the College refunds financial aid to students with unpaid tuition balances, and does not always recover the refunded aid when the balances remain unpaid. We recommend that improvements be made in a number of College practices related to the collection of tuition. (See pp. 19-24)

COMMENTS OF COLLEGE OFFICIALS

A draft copy of this report was provided to College officials for their review and comment. College officials generally agreed with the recommendations made in the areas of payroll and purchasing and stated that recommendations will be implemented. Regarding the recommendations that were made in the revenue section of the report, College officials agreed with some of our recommendations.

CONTENTS

INTRODUCTION

Background

The City University of New York (CUNY) is the largest urban university, and the third-largest public university system, in the nation. CUNY comprises 11 senior colleges, six community colleges, a graduate center, a law school, and a school of biomedical education. CUNY is governed by a 17-member Board of Trustees.

New York City College of Technology (College), located in Brooklyn, is one of 11 senior colleges in the CUNY system. The College is the only school in the CUNY system that specializes in technology-related curriculums, offering 50 career-specific disciplines to more than 11,000 students (approximately 7,000 full-time and 4,000 part-time). For the 2002-03 school year, the College collected about $30 million in revenue. The College's gross payroll for calendar year 2003 was $36.4 million, and its nonpayroll expenditures for the 2002-03 fiscal year totaled about $5 million.

Audit Scope, Objective and Methodology

We audited selected financial management practices at the College for the period September 1, 2001 through December 31, 2003. The objective of our performance audit was to determine whether the College has effective internal controls over selected payroll, purchasing and tuition revenue collection functions. To accomplish this objective, we interviewed employees in the College Bursar, Registrar, Financial Aid, Payroll, Personnel and Executive Program offices. We tested selected controls and transactions, and reviewed selected data from payroll and purchasing documents, the Student Information Management Systems (SIMS) and students' files. We also reviewed payroll guidelines issued by the Office of the State Comptroller, the State Payroll System (PayServ), the Tuition and Fee Manual published by CUNY, and purchasing guidelines issued by CUNY and New York State.

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 College that are included in our audit scope. These standards also require that we understand the College's internal control structure and its compliance with those laws, rules and regulations that are relevant to the College's 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 that our audit provides a reasonable basis for our findings, conclusions and recommendations.

In addition to being the State Auditor, the Comptroller of New York State 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 who have minority voting rights. These duties may be considered management functions for 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.

Response of College Officials to Audit

Draft copies of this report were provided to College officials for their review and comment. A copy of their response is included as Appendix B to this report. College officials generally agreed with our recommendations in the payroll and purchasing areas and state they either have been or will be implemented. Concerning our recommendations in the revenue section of the report, College officials partially agreed with our recommendations.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the City 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 implemented, the reasons why.

PAYROLL

We found that improvements are needed in the College's controls over undistributed paychecks, and the calculation and processing of overtime. We also determined that the validity of employees' social security numbers needs to be verified by the College before the numbers are entered into the State's payroll system and individuals who are no longer active employees of the College need to be deleted from the payroll system.

Undistributed Paychecks

The New York State Accounting System User Procedure Manual (Manual) specifies the requirements relating to employee time and attendance and related recordkeeping practices. The Manual also requires that paychecks remaining unclaimed at the end of 30 days be returned to the Office of the State Comptroller, Remittance Control Unit (RCU). Such checks may subsequently be revalidated for reissuance to the employees. The purpose of this requirement is to prevent the loss or theft of these checks before they can be delivered to the proper recipient.

At the College, undelivered paychecks are held in the Payroll Unit. The Payroll Director told us that letters are sent to employees who have not picked up their checks, notifying them that their checks are in the Payroll Unit.

On October 8, 2003, we found that a total of 108 undelivered paychecks were being held in the Payroll Unit. The age of these paychecks are as follows:

- 67 original paychecks, of which 38 were between 31 and 100 days old, and 26 were more than 100 days old (including seven that were over 200 days old and two that were 666 days old).

- 41 reissued paychecks (these paychecks were revalidated and reissued after they were returned to the RCU, but had yet to be picked up by the employees) of which two were between 31 and 100 days old, and 39 were more than 100 days old (including eight that were over 200 days old). We were told that the Payroll Unit had contacted the employees for all 41 paychecks, and the employees had stated they would pick up the checks.

We further determined that the 108 paychecks belonged to 58 different employees, 16 of whom had more than one undelivered paycheck. In fact, six employees (all instructors) had at least five, and as many as ten, undelivered paychecks. For example, an Assistant Professor in Mathematics had six undelivered checks dated between March 20, 2003 and May 29, 2003. These paychecks related to additional work, beyond the normal full-time workload, that was performed by the Assistant Professor in an adjunct capacity. The Assistant Professor was paid separately, by direct deposit, for the normal full-time workload. Four of the other five instructors with at least five undelivered paychecks also served in both full-time and adjunct capacities; the fifth instructor served solely in an adjunct capacity.

We were told that, in some instances, instructors never pick up a second paycheck for adjunct work; instead, they want to "bank" the time related to the paycheck (i.e., in some future semester, when they have accumulated enough banked time, they teach one course less than a full-time workload, but are still paid for a full-time workload). We were told that, in these instances, the instructors decline the paychecks on the advice of their union. However, according to College officials, this practice is contrary to the current College policy.

We recommend that the College enforce its policy and not allow faculty members to "bank" time for work performed in an adjunct capacity. We also recommend that the College maintain a formal inventory of all undelivered paychecks. Currently, no written record is maintained of these checks, even though there can be more than 100 of them at any point in time. We also recommend that the College use the inventory listing to monitor the status of the paychecks and ensure they are promptly returned to the RCU after 30 days. We further recommend that the College follow up on paychecks not delivered within 30 days to determine the reason for the delay, and take action to correct

any systematic problems (such as the inappropriate "banking" of adjunct time) responsible for such delays.

Overtime

During the 2001, 2002 and 2003 (through 8/22/03) calendar years, the College incurred about $186,000, $272,000 and $150,000, respectively, in overtime expenses. Generally, overtime at the College should be approved in advance by the appropriate supervisory personnel, and the actual overtime hours should be documented on the employee's timecard. To determine whether overtime was properly authorized and documented, and overtime payments were correctly calculated, we reviewed a judgmental sample of 45 overtime payments, totaling $26,342, made during our audit period. Generally, the sample consisted of selected payments made to the employees receiving the highest overtime payments each year during the audit period. We selected a total of 15 employees (five from 2001, five from 2002, and five from 2003), from a total population of 377 and reviewed three overtime payments for each employee.

We found that 9 of the 45 overtime payments were incorrect due to various clerical errors. The nine errors resulted in about $143 in overpayments and about $178 in underpayments. For example, in five payments, the time-and-a-half overtime rate was incorrectly calculated, and in three payments, the number of overtime hours worked was incorrectly calculated and in one instance, the same overtime was submitted for payment twice (we were informed by College officials that this error had already been detected by the College, and the overpayment had been recovered). We further determined that, for 5 of the 45 payments, the employees' timecard was not signed by the supervisors.

Requests for overtime payments are processed by staff in the Payroll Unit. These requests for payment are not routinely reviewed by supervisory staff to ensure that the calculations are correct and the supporting documentation (such as employee timecards) is complete. We recommend that such a review be performed.

Verification of Employees' Social Security Numbers

According to State and Federal requirements, the payroll record must include the social security number of each employee. This number is used by State and Federal taxing authorities to identify individuals for income tax purposes. If a social security number on the payroll record is inaccurate or invalid (invalid social security numbers include numbers that were not issued to the individuals claiming the numbers, and numbers that were not issued at all by the Social Security Administration), the individual's tax information may not be properly reported. In addition, an invalid social security number could be indicative of identify theft or other inappropriate activities requiring investigation.

Certain specialized diagnostic software products can be used to detect social security numbers that may be invalid. We used one such software product (VERIS) to analyze the social security numbers of the 3,502 individuals listed on the College's payroll register as of September 9, 2003. We identified five social security numbers that were invalid (these numbers had not been issued by the Social Security Administration). In four instances, we determined that the College had entered the wrong number onto the payroll system. The College corrected the four known errors. In the case of the fifth invalid number, we were not able to determine the cause of the error. We recommend that the College follow up with this employee and obtain reliable evidence of the employee's social security number.

We also identified ten employees' social security numbers that, according to the VERIS software information, had been issued to individuals who were deceased at the time of our review. In all ten instances, the reported date of death was prior to September 2003. Since all ten individuals were still listed on the College's payroll register as of September 9, 2003, paychecks could have been inappropriately issued in the names of the individuals after their death. To determine whether any such paychecks were inappropriately issued, we reviewed the employees' payroll activity for the prior year.

We noted that one of the ten individuals was not, in fact, deceased and was an active College employee. To determine whether this employee's social security number had been

inaccurately entered on the payroll system, we reviewed the employee's social security card. We found that the social security number was accurately entered on the payroll system. However, according to VERIS, the social security number on the employee's social security card had been issued to an individual who died in 1980. We recommend that the College follow up on this matter and determine whether the employee is using the social security number that was issued to him by the Social Security Administration.

For the other nine individuals, we determined that either no paychecks were issued during the prior year, or the paychecks that were issued were appropriate (e.g., two individuals were issued paychecks after the date of their death because of the State's lag payroll). However, we question whether individuals who are no longer active employees should be listed on the College's payroll register (all nine individuals were listed on the September 9, 2003 payroll register).

According to College officials, former adjunct instructors are routinely left on the payroll register as a matter of convenience, in case the instructors are employed again by the College some time in the future. For example, 468 of the 873 (54 percent) adjunct instructors listed on the December 11, 2003 payroll register did not receive a paycheck. (We also note that five of the deceased individuals identified through VERIS were adjunct instructors.) While there is no requirement that former employees (or deceased employees) be deleted from the payroll register, the presence of such names on the register increases the risk of payroll fraud. We therefore recommend that the College promptly delete individuals from the payroll register when they are no longer active College employees.

Recommendations

1. Maintain a formal inventory of all undelivered paychecks and use the inventory listing to monitor the status of the paychecks.

2. Promptly return all undelivered paychecks to the Office of the State Comptroller after 30 days.

3. Follow up on paychecks not delivered within 30 days to determine the reason for the delay, and take action to correct any systematic problems responsible for such delays.

4. Enforce the College's policy and do not allow faculty members to "bank" time for work performed in an adjunct capacity.

5. Routinely review requests for overtime payments to ensure that the calculations are correct, and the supporting documentation and authorization is accurate and complete.

6. Ensure that there are procedures in place to enter employees' actual social security numbers into PayServ and maintain adequate documentation of such in the employees' personnel files.

7. Follow up on the two employees using questionable social security numbers and determine whether the numbers are in fact correct and do actually belong to those employees.

8. Promptly delete individuals from PayServ when they are no longer active College employees.

(College officials agreed with our recommendations and indicated that action has been taken to implement the recommendations.)

PURCHASING

We found that improvements are needed in certain controls related to the purchase and receipt of goods and services. For example, State contract numbers often are not recorded on procurement documents, purchase orders are not always used when required, and the delivery of goods and services is not properly verified. We also found that the College does not comply with certain provisions of the State's Prompt Payment Law, which requires interest payments to be made to vendors when they are not paid within 30 days of delivering goods or services. The College does not accurately determine when the 30-day payment period begins, and as a result, the processing time for its payments may have been understated. If this processing time was understated, vendors may not have received all the interest they were due under the provisions of the Prompt Payment Law.

Purchases

According to State purchasing guidelines, if an agency purchases goods through a State contract, the agency is required to record the contract number on the purchase order. If the contract number is not recorded on the purchase order, any failure by the vendor to charge the discounted contract price is less likely to be detected by the voucher processing unit and the Office of the State Comptroller when the purchase order is processed for payment. We found six instances where the College Purchasing Unit did not record State contract numbers on purchase orders and other procurement documents. For example, the contract number was not referenced on procurement documents relating to about $400,000 in purchases from six State contract vendors.

As a result of these omissions, the College had less assurance it was paying the discounted State contract price, and State purchasing records understated the volume of goods purchased through these six contracts. Such understatements could affect the prices offered under future State contracts, as the volume discounts offered by vendors may not be as large as they would be if the true volume of purchases made under the contracts was known.

College officials indicated that, in their opinion, the College is not required to record State contract numbers on its purchase orders, because the actual payments to the vendors are not made by the College. Rather, these payments are made by the Office of the State Comptroller. However, College officials are overlooking the fact that these payments are based on purchase orders and related documents, and the purchase orders and related documents are prepared by the College. Thus, the College, like other agencies whose purchases are made through the Office of the State Comptroller, is responsible for including certain information on its purchase orders and related documents.

Receipt of Goods and Services

According to the Manual, to provide assurance that the number and type of items received at an agency are the number and type that were ordered, the items should be inspected, and their quantity and quality verified, at the point of delivery. Ideally, this inspection should be performed by a separate receiving department, but if this is not possible, the inspection should be performed by someone other than the person who ordered the item. This separation of the receiving and ordering functions minimizes the risk of fraudulent purchasing transactions.

However, we found that, at the College, the employees in the receiving area do not verify the quantity and quality of the goods that are received. Instead, they send the goods to the unit or person who ordered them. While this unit or individual later verifies the quantity and quality of the goods, the College's controls are weakened by this failure to adequately separate the receiving and ordering functions. We recommend that deliveries be verified in the receiving department.

According to Section 179 of the State Finance Law (commonly known as the Prompt Payment Law), if a vendor providing goods or services to an agency is not paid within a certain 30-day timeframe, the agency must pay the vendor an interest penalty in addition to the amount owed for the goods or services. The 30-day timeframe is initiated either (a) on the date the goods or services are delivered to the agency, or (b) the date the vendor invoice is delivered to the agency, whichever date is later. This date is considered the agency's liability date for the purposes of prompt payment calculations.

The College's Accounts Payable Unit is responsible for determining the College's liability date. When the Accounts Payable Unit receives a vendor's invoice, it asks the end-user department (the department receiving the goods or services) to verify the delivery of the goods or services and the accuracy of the invoice before processing the voucher for payment. This verification is to be documented on a form that is sent to the end-user department, and is to be returned to the Accounts Payable Unit. This form contains the date the goods or services were actually received by the College.

The liability date is entered on the voucher by the Accounts Payable Unit. To determine whether this date was accurate, we reviewed a sample of 17 vouchers and compared the liability date on the vouchers to the date of the invoices and the date the goods/services were received by the College. These sampled vouchers were selected at random from a total population of 5,159 vouchers for the fiscal years 2001-02 and 2002-03 that were considered discretionary. We found that, for 8 of the 17 vouchers, no form was on file in the Accounts Payable Unit indicating that the date of receipt had been verified by the end-user department, and for five of the vouchers, the liability date on the voucher was not consistent with the date of receipt on the form.

According to Accounts Payable staff, the end-user departments are not always prompt in their verification of deliveries, and in some instances, never verify the deliveries. Thus, to minimize processing delays, the Accounts Payable Unit sometimes enters the liability date and processes the voucher for payment before the verification form is received from the end-user department. If the form is subsequently received, the date on the form may not agree with liability date on the voucher.

We further determined that the invoice date was not properly considered for any of the transactions in our sample, because the Accounts Payable Unit does not record the date the invoice is first received by the College. Rather, the Unit stamps the invoices "received" on the date the verification form is received from the end-user department. For the 14 vouchers in our sample, this date was an average of 23 days later than the date printed on the invoice by the vendor. The other three vouchers were not included because they were out of Accounts Payable Unit control and, therefore, are not reflective of the condition tested.

We therefore conclude that significant improvements are needed in the College's process for determining its liability date on purchasing transactions. The date that goods and services are actually received must be promptly communicated to the Accounts Payable Unit, the date that the vendor's invoice is first received at the College must be recorded and both these dates must be taken into account in the determination of the liability date.

Recommendations

9. Ensure that the contract number is referenced on all purchase orders made through State contracts.

10. Require goods to be delivered to the receiving department, and require the receiving department to verify the deliveries.

11. Determine the College's liability date for purchases in accordance with the requirements contained in the Prompt Payment Law. To facilitate compliance with these requirements, record the date the vendor's invoice is first received at the College, and ensure that delivery dates are promptly communicated to the Accounts Payable Unit.

    (College officials agreed with our recommendations and indicate that actions have been taken to implement our recommendations.)

REVENUE

We found that improvements are needed in certain College practices related to the collection of tuition and fees. Improvements are particularly needed in the College's student registration process, as contrary to CUNY guidelines, students with outstanding balances from prior semesters are allowed to register for new classes. We identified a number of instances when such students failed to satisfy their outstanding obligations, and also failed to pay for the new classes. We also found that the College sometimes refunds financial aid to students before the students' tuition and fee obligations are fully satisfied. In some instances, these obligations were not subsequently satisfied, and the refunded aid was not recovered from the students, even though the aid was intended primarily to cover tuition and fee obligations. We also determined that the College is slow to refer unpaid tuition accounts to collection agencies, and does not always obtain signed repayment agreements from students on deferred payment plans.

Student Registration Process

According to the CUNY Tuition and Fee Manual, students must satisfy all their tuition and fee obligations before the first day of classes in a current term to be allowed to register for classes in that term. Students who are delinquent and/or in default on any of their financial accounts with the College should not be permitted to register, unless the College President (or designee) waives this requirement in writing, and such waivers are to be granted only in exceptional cases of hardship. To prevent students with outstanding balances from registering for classes, the College can place an automated registration-stop (called a Business Manager Stop) on the students' records in the automated Student Information Management Systems (SIMS). Once this is done, the students cannot register for new classes, and any course selections that have already been made by the students are cancelled.

To determine whether the College complied with CUNY's requirements relating to the registration of students with outstanding balances, we reviewed the actions taken by the College with respect to a sample of such students. To select

our sample, we reviewed SIMS accounts receivable information for the Fall 2001 through Summer 2003 semesters, and identified all the students who owed outstanding balances for two or more semesters during the period. We identified a total of 318 such students. We judgmentally selected 20 of these students for our sample, selecting the 20 students who had the highest unpaid balances as of the Summer 2003 semester. Collectively, these 20 students owed a total of $54,761 in tuition and fees, and their individual debts ranged from $760 to $5,618. (One of the 20 students subsequently satisfied her outstanding debt after our review).

To identify the actions that had been taken by the College with respect to these 20 students, we reviewed College records and interviewed College officials. We found that, contrary to CUNY's requirements, all 20 students had been allowed by the College to register for new classes when they had an outstanding unpaid balance from a prior semester, and in no instance had a registration waiver been obtained for exceptional hardship.

We note that a Business Manager Stop was placed on the records of ten of the students (whose unpaid balances totaled $25,191), but the stops were removed and all ten students were allowed to register for a new semester without satisfying their outstanding obligations. One of these students responded to the stop by giving the College a check for $1,659, the amount of the student's unpaid balance from the prior semester. The stop on this student's record was then removed, and the student registered for the following semester. However, the check bounced and was never replaced. The student also did not pay for the following semester, bringing the student's total unpaid balance to $3,418. The College's records did not indicate why the stops were removed from the records of the other nine students, and College officials were unable to provide any explanations.

A Business Manager Stop was also placed on the record of another student. This student owed $1,835 for the Fall 2002 semester. Even though the stop was not removed from the student's record, the student was allowed to register for classes in the Spring 2003 semester. The student did not pay for this semester either, bringing the student's total unpaid balance to $5,369. College officials were unable to explain how the student was able to register for a new semester with a stop on his record.

A Business Manager Stop was not placed on the records of the nine remaining students, whose unpaid balances totaled 24,201.

All nine students were allowed to register for an upcoming semester while having an unpaid balance from a prior semester. According to College records, six of the nine students were expected to receive financial assistance of some kind (a grant or loan) to cover their unpaid balance, but in all six instances, the expected financial assistance did not materialize. While five of the six students withdrew from the College before completing the new semester (their outstanding tuition debts remain unpaid), one of the students completed the new semester (Spring 2003). This student did not pay for this semester either, and thus had unpaid balances for two semesters (Fall 2002 and Spring 2003). Despite these unpaid balances, the student was allowed to register for the Fall 2003 semester. The student also failed to pay for that semester, and at the time of our audit, owed a total of $3,892 for three unpaid semesters (Fall 2002 through Fall 2003).

Since these nine students had unpaid balances from a prior semester, a Business Manager Stop should have been placed on the records of all nine students. The College's records indicate that this was not done for six of the students because financial assistance was expected to cover the outstanding balances. However, according to CUNY guidelines, students with unpaid balances may be allowed to register for new classes only when a waiver is obtained for exceptional hardship, and waivers were not obtained for any of the six students. The College's records did not indicate why a Business Manager Stop was not placed on the records of the other three students, who were not expecting financial assistance, and College officials were unable to provide any explanations.

We also note that, while registration waivers may be granted by the College President (or a designee) in cases of exceptional hardship, the College has no written criteria defining exceptional hardship and no written procedures for applying for such waivers. In addition, no one has been designated by the College President to grant such waivers. We recommend that written procedures be developed for the waiver process.

In response to our draft report, College officials believe that the problems we cited have occurred when a student's estimated financial aid award does not materialize and the student has registered early for the subsequent semester. Thus a review of the student's account subsequent to the change in the award

would show that a balance was owed yet the student was allowed to register for the subsequent semester. They intend to address this matter by reviewing the records of students who register early and have an estimated financial aid amount on their account.

Refunds of Financial Aid to Students

In most cases, financial aid for a student is paid directly to the student's school, and not to the student. If this financial aid exceeds the student's tuition and fees, the excess amount is "refunded" to the student by the school. Such refunds are appropriate when the student's tuition and fee obligations have been fully met. However, we found that students with an outstanding balance from a prior semester received such refunds from the College. In these instances, the excess financial aid was not applied to the outstanding balance; but rather refunded to the student.

In addition, some students receive more than one type of financial aid. The different aid payments may be made at different times, and some aid payments may not be made until after the semester begins. We found that the College does not wait for all of a student's financial aid payments to be received before issuing a refund to the student. Rather, the College projects the total amount of financial aid to be received by the student for the semester, and if the projected total exceeds the student's tuition and fee obligation for the semester, the College issues a refund to the student when the first financial aid payment is received. If the projection is accurate, the student's tuition and fee obligation will be satisfied when the remaining financial aid payment(s) is (are) received. However, if the remaining financial aid payments are less than projected, the student's tuition and fee obligation will not be fully satisfied, and in such instances, the College might not be able to recover the aid that was previously refunded to the student.

We determined that the tuition and fee obligations of some of the students in our sample were not satisfied for this reason. Financial aid was refunded to these students, because the College's projections indicated that subsequent financial aid payments would be sufficient to satisfy the students' tuition and fee obligations for the semester. However, the subsequent financial aid payments were less than projected, and the obligations were not satisfied. Eleven of the 20 students in our sample received such refunds in 16 different semesters. The

refunds totaled $21,297, and the students' outstanding obligations totaled $26,587 as of October 6, 2003. In some instances, these students received a refund even when they had an outstanding balance from a prior semester.

For example, one student was refunded a total of $4,728 in the Fall 2001 and Spring 2002 semesters. The refund consisted of the student's New York City Merit Scholarship ($1,385) and Pell grant ($3,343). At the time the refunds were paid, the student's tuition and fee obligation for the Fall 2001 semester ($1,600) had yet to be satisfied. The College projected that this obligation would be satisfied by additional financial aid, but no additional financial aid was received that semester for this student. As a result, the student had an outstanding balance of $1,600 for the Fall 2001 semester. Despite this outstanding balance, the student was allowed to register for the Spring 2002 semester. Once again, no additional financial aid was received for the student, and as a result, the student's unpaid balance increased to $3,200. As of October 6, 2003, this outstanding balance had yet to be paid, as none of the refunded financial aid had been recovered from the student. In fact, at the time of our audit, only one of the eleven students with outstanding balances had returned any of their refunded financial aid to the College.

To prevent such difficulties, we recommend that the College refund financial aid to students only when their tuition and fee obligations (current and prior) are fully satisfied. If prior obligations are still outstanding, the excess aid for the current semester should be applied to these obligations before any amount is refunded to the student. If the College expects more than one financial aid payment for a student, the College should use the first payments to satisfy the student's tuition and fee obligations, and issue a refund only if the later payments exceed these obligations. We also note that financial aid projections were not accurate for four of the students in our sample because the projections were not adjusted when the students' enrollment status changed (e.g., from full-time status to withdrawn). We recommend that such adjustments be made.

Collection Practices

According to CUNY policy, outstanding tuition and fee balances that are more than one year old are to be written off and referred to a collection agency approved by CUNY. Between December 21, 2001 and June 24, 2003, more than $1.6 million in such accounts were referred for collection by the

College. We analyzed the age of these accounts and determined that all of the accounts were more than two years old at the time of referral, and some of the accounts were more than five years old, as follows:

- $1,607,076 in accounts were between two and three years old,
- $1,920 in accounts were between three and four years old,
- $4,271 in accounts were between four and five years old, and
- $2,527 in accounts were more than five years old.

College officials stated that they do not follow CUNY policy because they feel it is too restrictive. Instead, their practice is to refer accounts for collection within 24 months. We recommend the College comply with CUNY policy, because accounts tend to become more difficult to collect as they become older.

We further note that, in certain circumstances, students are permitted by CUNY to use deferred payment plans for their tuition and fee obligations. Such students are required by CUNY guidelines to sign written agreements indicating they will comply with the provisions of the payment plan. According to the SIMS, one of the students in our sample had been authorized by the College to use a payment plan. This student had an outstanding balance of $5,618 as of October 6, 2003. However, we found that the College had no written repayment agreement with this student. As a result, the College is less likely to collect the amount owed by the student. We note that, for the Fall 2001 through Summer 2003 semesters, a total of 240 students defaulted on their repayment agreements with the College. The unpaid balances on those agreements totaled $124,737.

Recommendations

12. Comply with CUNY guidelines and do not allow students with unpaid tuition/fee balances from prior semesters to register for new classes, unless a waiver of exceptional hardship has been obtained.

13. Ensure that employees understand when the stop should be placed on, and removed from, student records. Institute a periodic supervisory review of the use of the Business Manager Stop, and take corrective action when the stop is not used in accordance with requirements.

14. Develop comprehensive written procedures for waivers of exceptional hardship, including criteria that define exceptional hardship and procedures for applying for the waivers.

    (College officials believe that the problems are caused by students who have an estimated financial aid award posted to their account that register early for a subsequent semester but subsequently have their estimated award reduced. They agreed to review the CUNY policy on placing stops on student accounts and review these stops on a case by case basis in the future. They stated that a hardship deferral policy was in place and that waivers were documented in accordance with this policy.)

    Auditor's Comment: As discussed in the body of the report, the problem is not confined solely to the students who register early for a subsequent semester while having an estimated financial aid amount on their account. College officials need to review all accounts prior to the start of registration and place a stop on accounts to prevent registration when monies are owed. Regarding hardship deferrals, we were not provided with an approved hardship for the one student in our sample.

15. Refund financial aid to students only when their tuition and fee obligations are fully satisfied.

16. Revise students' financial aid projections when their enrollment status changes.

Recommendations (Cont'd)

(College officials agreed to implement changes to prevent such refunds in the future and will revise financial aid estimates.)

17. Comply with CUNY policy and refer unpaid tuition accounts for collection when they are one year old.

    (College officials will review their referral practices for unpaid accounts and make referrals on a more timely basis.)

18. Require students using authorized deferred payment plans to sign a written agreement indicating they will comply with the provisions of the plan.

    (College officials state that there is an approved deferred payment agreement form and that such forms are used and retained by the College.)

    Auditor's Comment: We disagree with the College. Our sample testing disclosed one instance for which an agreement was not on file. We strongly recommend that the College review their practices in this area.

MAJOR CONTRIBUTORS TO THIS REPORT

Brian Mason

Tony Carbonelli

Marc Geller

Bebe Belkin

Joseph Giaimo

Amanda Radley

Dana Newhouse

NEW YORK CITY
TECHNICAL COLLEGE
THE CITY UNIVERSITY OF NEW YORK
300 JAY STREET, BROOKLYN, NY 11201-2983

DIXIE K. NORRIS
Vice President
Finance and Administration
(718) 260-5600 • Fax: (718) 260-5990
Email: dnorris@nyctc.cuny.edu

October 29, 2004

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

Re: Selected Financial Management Practices Audit 2003-S-37 for NYCCT

Dear Mr. Sossei:

The above referenced audit found that improvements are needed in certain payroll and purchasing controls, and significant improvements needed in tuition collection practices.

We have reviewed the audit results and recommendations provided. The following is the College's response and implementation status for the recommendations made.

PAYROLL

Undelivered Payroll Checks

Observation:

The audit found that improvements are needed in the College's controls over undistributed paychecks, and the calculation and processing of overtime. It was also determined that the validity of employees' social security numbers needed verification before entering them into the State's payroll system and individuals who are no longer active employees need to be deleted from the payroll system.

At the time of the audit there were 108 undelivered paychecks being held by the Payroll Office. The age of the checks ranged from 30 days to over 200 days old.

Recommendations:

The College needs to maintain a formal inventory of all undelivered paychecks and use the inventory listing to monitor the status of the paychecks.

The College needs to promptly return all undelivered paychecks to the Office of the State Comptroller after 30 days.

The College needs to follow up on paychecks not delivered within 30 days to determine the reason for the delay, and take action to correct any systematic problems responsible for such delays.

The College needs to enforce its policy and not allow faculty members to "bank" time for work performed in an adjunct capacity.

College Response:

The College recognizes the need to maintain a formal inventory of all undelivered paychecks and monitor the list for status and will so do.

All undelivered paychecks left in the Payroll Office after 30 days will be returned to the State Comptroller's Office, Remittance Control Unit, after consultation with the employee to determine the reason for the delay, the College will make a request for revalidation and reissuance to the employee.

Overtime Calculation

Background:

Overtime at the College should be approved in advance by the appropriate supervisory personnel and the actual overtime hours should be documented on the employee's timecard. Overtime calculations were incorrect due to various clerical errors. Supervisory staff is not routinely reviewing the calculations for accuracy and making certain that supporting documentation is complete.

Recommendations:

The College should routinely review requests for overtime payments to ensure that the calculations are correct, and the supporting documentation and authorization is accurate and complete.

College Response:

The College will put into place a written advance approval system for overtime. In addition, prior to entering overtime into the PaySr system, the College will have a payroll supervisor review the overtime calculations for accuracy and make certain that all supporting documentation is in order.

Verification of Employees' Social Security Numbers

Observation:

The validity of the employee' social security number needs to be verified by the College before entering it into the State's payroll system.

Recommendation:

Ensure that there are procedures in place to enter employees' actual social security numbers in PaySr and maintain adequate documentation of such in the employees' personnel files.

College Response:

The College will review the social security number input into the system with the copy of the social security number attached to the I-9.

Deleting from PaySr employees who are no longer active

Observation:

Employees who are no longer active have remained on the PaySr system, which could increase the risk of fraud.

Recommendation:

Promptly delete individuals from PaySr when they are no longer active College employees.

College Response:

The College has improved in this area over the last year (2002-03 versus 2003-04) according to the "Agency Report Card" as issued by the State of New York Office of the State Comptroller. The College recognizes that more improvement is needed and will continue to work to promptly delete individuals from the State payroll system when they are no longer active employees.

PURCHASING

Purchases made through a State contract

Observation:

State purchasing guidelines require the agency to record the contract number on the purchase order. If the contract number is not recorded on the purchase order, any failure by the vendor to charge the discounted contract price is less likely to be detected by the voucher processing unit and the Office of the State Comptroller when the purchase order is processed for payment. A number of purchasing orders reviewed did not have the State contract number referenced.

Recommendation:

Ensure that the contract number is referenced on all purchase orders made through State contracts.

College Response:

The College is implementing an electronic Purchasing Administration System this year that will be compliant with State purchasing guidelines. The system will have a number of required fields, one of which will be for a State contract number) that must be filled before the Purchase Order can be completed. In the interim, the Purchasing Director will establish guidelines for all purchasing agents that will ensure the Purchasing Office references the State contract number, if applicable, on purchase orders and will review samples to ensure that guidelines are being followed.

Receipt of Goods and Services

Observation:

The State Purchasing Manual maintains that to provide assurance that the number and type of items received at an agency are the number and type that were ordered, the items should be inspected, and their quantity and quality verified, at the point of delivery. The receiving department does not verify the quantity and quality of goods received.

Recommendation:

Require goods to be delivered to the receiving department, and require the receiving department to verify the deliveries.

College Response:

The College will implement the use of bar code scanning devices to record deliveries and transmit the information to Purchasing and Accounts Payable for delivery verification.

Non-compliance with certain provisions of the State's Prompt Payment Law

Observation:

Interest payments are to be made to vendors when they are not paid within 30 days of delivering goods or services. The College does not accurately determine when the 30-day payment period begins, and, as a result, the processing time for its payments may have been understated. If this processing time was understated, vendors may not have received all the interest they were due under the provisions of the Prompt Payment Law.

Recommendation:

Determine the College's liability date for purchases in accordance with the requirements contained in the Prompt Payment Law. To facilitate compliance with these requirements, record the date the vendor's invoice is first received at the College and ensure that delivery dates are promptly communicated to the Accounts Payable Unit.

College Response:

The College will implement a policy where all invoices will be time-stamped upon arrival in the Accounts Payable Unit. The College will also implement a policy that upon receipt of the invoice, emails will be sent to receiving departments for confirmation of delivery. The implementation of the bar code scanning devises on Receiving Dock to transmit delivery verification to Purchasing and Accounts Payable will validate delivery as well.

REVENUE

Student Registration Process

Observation:

Students with outstanding balances from prior semesters are allowed to register for new classes, contrary to CUNY Tuition and Fee Manual guidelines.

Recommendation:

Comply with CUNY guidelines and do not allow students with unpaid tuition/fee balances from prior semesters to register for new classes, unless a waiver of exceptional hardship has been obtained.

Ensure that employees understand when the stop should be placed on, and removed from, student records. Institute a periodic supervisory review of the use of the Business Manager Stop, and take corrective action when the stop is not used in accordance with requirements.

Develop comprehensive written procedures for waivers of exceptional hardship, including criteria that define exceptional hardship and procedures for applying for the waivers.

College Response:

During early registration students may still have estimated financial aid awards on their account. These estimates are still under review by the awarding agency. Their registration can be completed with the estimated financial aid on their account, providing a zero balance. When the financial aid review is completed by the awarding agency, the possibilities are that the award will stand and their account will be at a zero balance, or the award will be reduced or revoked, leaving an account balance in the amount of the estimated award. By this time, the student's registration has been completed, so the records would show a registered student for the new semester with a tuition and fee balance. We will review the early registration records for changes in student balances and be proactive in contacting the students regarding changes in their financial aid.

The College will review the CUNY policy regarding stops on student records. Blanket stops are initiated subsequent to Form A. The accounts will be reviewed on a case-by-case basis for removal of registration and/or student record stops.

Guidelines regarding hardship deferral waivers was submitted to the Internal Audit Office at CUNY in June 2000 and was promulgated among the staff at the College (Attachment I.) Hardship cases are documented according to the guidelines and the documentation is maintained in the Business Office.

Refund of Financial Aid to Students

Observation:

The College does not wait for all of a student's financial aid payments to be received before issuing a refund to the student. Rather, the College projects the total amount of financial aid to be received by the student for the semester, and if the projected total exceeds the student's tuition and fee obligation for the semester, the College issues a refund to the student when the first financial aid payment is received. If the projection is accurate, the student's tuition and fee obligation will be satisfied when the remaining financial aid is received However, if the remaining financial aid payments are less than projected, the student's tuition and fee obligation will not be fully satisfied and the College might not be able to recover the aid that was previously refunded to the student.

Recommendation:

Refund financial aid to students only when their tuition and fee obligations are fully satisfied. Revise students' financial aid projects when their enrollment status changes.

College Response:

This situation happens when there is a loss of the TAP award. In some instances, TAP awards can be reduced or removed by the state two years after the initial award – thus leaving an unpaid balance on the student record. We will implement a temporary aid code for estimated financial aid awards. One month after the estimated awards are placed on the account, we will remove the temporary code and produce a bill for which the student is obligated. If an actual award is then received, a refund will be made to the student.

Collection Practices

Observation:

Outstanding tuition and fee balances more than one year old are to be written off and referred to a CUNY approved collection agency according to CUNY policy. The analysis of accounts referred to collection were determined to be more than two years old at the time of the referral, and some of the accounts more than five years old.

In certain circumstances, students were permitted by CUNY to use deferred payment plans for their tuition and fee obligations. A written agreement, indicating they will comply with the provisions of the payment plan, is required by CUNY guidelines.

Recommendation:

Comply with CUNY policy and refer unpaid tuition accounts for collection when they are one year old.

Require students using authorized deferred payment plans to sign a written agreement indicating they will comply with the provisions of the plan.

College Response:

The College is aware of the University's one-year rule, but extra efforts done in negotiating with students for direct payments during the first year have resulted in late submission of accounts to the collection agency. The College will reevaluate this practice and refer accounts receivable to the collection agency on a more timely basis.

The College has a written agreement for deferred payment plans (Attachment II) dealing with the student's tuition and fee obligations. Records are maintained for a three-year period after the account is satisfied.

Sincerely,

Dixie K. Norris

Attachments

cc: Russell K. Hotzler, President

These are New York City Technical College's tuition deferral guidelines for the granting of hardship deferrals:

1) The Business Manager reviews each tuition deferral application and approves or denies the student's participation in the program.

2) Subject to approval by the office of the Vice Chancellor for Budget, Finance and Information Services, the College grants deferrals based on individual students' short-term needs observing the current University minimum deferral threshold of $630.00.

3) Activity fees are not deferred or waived under any circumstances.

4) To be considered registered, a student pays 100% of applicable fees plus an initial payment of at least one third of the remaining tuition.

5) Students are required to sign a promissory note.

6) The terms of the note include a second payment of one third of the remaining balance 30 days after the first day of the semester, and a third and fourth payment 60 and 90 days after the first day of the semester.

7) A student defaulting on the terms and conditions of the note is assessed a non-payment service fee and referred to a collection agency when the College's collection efforts have failed.

NEW YORK CITY
COLLEGE OF TECHNOLOGY

THE CITY UNIVERSITY OF NEW YORK

BUSINESS OFFICE
300 JAY STREET, BROOKLYN, NY 11201-2983
TEL (718) 473-8900 • FAX: (718) 473-8990

HARDSHIP TUITION DEFERRAL PROGRAM
_____ SEMESTER
TERMS AND CONDITIONS

DATE_____

I,_____, Social Security Number _____, promise to pay New York City College of Technology the sum of $_____ in three installments according to the schedule below, so that my debt is paid in full.

I understand that, if for any reason, I fail to comply with this note, my name will be sent to a lawyer with the college's collection agency.

If I do not make any of the payments by the agreed time, a $15.00 late fee will be added each time to the sum I owe. I also understand that I must keep my record of payments.

*Student Signature_____

Address_____

Telephone Numbers
Day (_____)_____-_____

Evening (_____)_____-_____

Cellular (_____)_____-_____

Tuition Initial Payment: 100% Fees $_____ + ½ Outstanding $_____

September 2, 2004 1) $_____

October 4, 2004 2) $_____ Total Amount Deferred $ _____

November 4,2004 3) $_____

Accepted_____ Approved_____

*Once Agreement is signed it cannot be altered. Please be aware that your future registration will be cancelled if you forfeit on this agreement.