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COMPTROLLER



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STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

April 6, 2006

Ms. Emma E. Macari  
Executive Director  
City University Construction Fund  
555 West 57th Street - 11<sup>th</sup> Floor  
New York, NY 10019

Re: Report 2005-Q-5

Dear Ms. Macari:

Pursuant to New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act), as revised in 1999; City University Construction Fund (CUCF) management is responsible for establishing and maintaining an effective system of internal controls and a program of internal control review. State agencies and authorities must annually certify their compliance with important provisions of internal control to the Division of the Budget in accordance with Budget Policy and Reporting Manual Item B-350. We have examined CUCF management's certification of compliance for the years ended June 30, 2003 and June 30, 2004 (the certification had not been completed for the year ended June 30, 2005 at the time of our examination). CUCF management is responsible for the certification. Our responsibility is to express an opinion on the certification based on our examination.

**Background**

The CUCF is a public benefit corporation established in 1966 by the New York State Legislature pursuant to Article 125-B of the State Education Law, also known as the City University Construction Fund Act. The CUCF is responsible for the design and construction of facilities for CUNY's constituent colleges pursuant to an approved master plan. A seven-member Board of Trustees (Board) governs the CUCF's programs. The CUCF uses the Dormitory Authority of the State of New York (DASNY) to execute CUNY's capital program, which, as of June 2003, had outstanding City University System bonds totaling \$3.7 billion for the finance and refinance of capital construction projects costs for the university. These projects are generally funded through bonds sold by DASNY on behalf of CUNY. The CUCF receives the tuition revenues generated by CUNY colleges and other funds from New York State and the City of New York to pay the debt service on the bonds sold by DASNY. DASNY manages the capital projects for CUNY. The CUCF's primary role in project administration is to ensure that sufficient funding is available to meet debt service obligations.

## **Examination Objective and Methodology**

The objective of our examination was to determine whether the CUCF's certification is fairly stated in all material respects. Our examination was conducted in accordance with generally accepted government auditing standards, which include the attestation standards established by the American Institute of Certified Public Accountants. Accordingly, we examined, on a test basis, evidence supporting management's certification and performed such other procedures as we considered necessary in the circumstances. In particular, we performed tests to determine whether management has established policies and procedures that provide an appropriate level of internal control over basic financial operations and to determine whether CUCF employees followed those policies and procedures during the review period.

To accomplish these objectives, we interviewed appropriate CUCF officials and reviewed applicable policies and procedures governing the following significant financial operations: Board oversight and governance, revenue and collections; cash and investments, payroll, procurement and contracting; equipment and asset management, budgeting and expenditure control, and accounting and information systems. We also interviewed staff responsible for these financial operations and performed limited compliance testing to provide assurance that employees follow established policies and procedures. We also observed and verified the existence of employees at different locations. We believe our examination provides a reasonable basis for our opinion.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for 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.

## **Results of Examination**

In our opinion, management's certification, as referred to previously, is fairly stated in all material respects based on the criteria set forth in the Act and Item B-350. However, we concluded that the CUCF can improve its system of internal controls and strengthen adherence to existing policies and procedures. CUCF officials indicated that they have already corrected some of the deficiencies we identified and will implement changes and update policies and procedures over other areas. (A summary table addressing specific questions related to each of the CUCF's basic financial operations is attached as Table I.)

1. According to the CUCF's bylaws, regular meetings of the Board shall be held once a month except in July, August and December. A regular meeting in any month may be dispensed with if, in the opinion of the Chairperson, the business of the CUCF does not require a meeting. During the period from January 2003 through June 2005, the Board should have had as many as 24 meetings. However, only 10 meetings took place and there was no documentation available that the Chairperson determined that meetings were not required to be held.

Consequently, it appears that the Board was not in compliance with the bylaws. CUCF officials told us that their Board reacts to the CUNY Board of Trustee's decisions about projects approved for construction. Accordingly, if there are no new construction projects for the CUCF to administer, there might not be a need for the CUCF's Board to meet. The Board should meet monthly as required or consider amending the bylaws to be more consistent with the CUCF's current need for Board meetings. In response to our observations, CUCF's officials stated that the Board is considering amending the bylaws to require only quarterly meetings.

2. According to the CUCF's bylaws, the Board is required to consist of seven members. However, throughout our examination period, the Board had only five members. Without a full complement of members, the CUCF Board might not be able to function properly in certain instances, which could impact CUCF operations. CUCF should ensure that the Board has a full complement of seven members. CUCF officials stated that they were aware of this situation. However, this issue must be addressed by senior CUNY officials.
3. At the time of our review, there were no written procedures for administering revenues and collections. The CUCF has only eight employees to perform daily administrative functions. According to CUCF officials, employees are familiar with all of the CUCF's processes and procedures, and consequently, written procedures were not necessary. Although we concluded that revenues and collections were processed properly, we believe that the CUCF should formalize its procedures and have them approved by the Board. Also, the procedures should be updated, as necessary. In response to our determination, CUCF officials prepared written revenue and collection procedures. These procedures had not yet been approved by the Board at the time of our fieldwork.
4. For four CUCF employees, we compared their authorized salaries, per their personnel files, to the actual salaries they were paid per the CUCF's payroll registers. The annual salaries actually paid did not match the approved amounts recorded in the personnel files for three of the four employees selected. For two employees, the annual salaries actually paid exceeded the approved salary amounts by \$14,904 and \$2,531, respectively. For the third employee, the actual salary paid was \$8,284 less than the approved amount. In response to our observations, CUCF officials prepared documentation to update and correct the authorized salaries of the employees in question and stated that personnel files would be updated timely in the future to correctly reflect employees' current salaries.
5. A review of the accuracy of leave accruals led us to conclude that the format of the Employee Profile/Schedule, the time record used to carry forward leave balances from one fiscal year to the next, is not conducive to review. The columnar headings identified as "current" and "charged" lack a specific date or period. Without this information, we were unable to verify if these computations were correct. We were not able to conclude whether accruals and charges were correct or incorrect from this schedule because definite dates for charges and accruals were not available on this form. CUCF should adjust the format of this time record and clarify the columnar headings. CUCF officials agreed to review and revise these forms and procedures.
6. Payroll Authorization Forms (PAFs) are required when staff are added or deleted from the payroll and require the signatures of the Human Resources and the Payroll Officers. We

reviewed a sample of eight PAFs processed during our examination period and determined that five of them lacked both of the required written authorizations. CUCF officials advised us that they would review the current procedures for authorizing PAFs and ensure that they are followed in the future.

7. The CUCF's inventory records for computers and other electronic equipment were missing key pieces of information, such as the amounts of the beginning and ending inventories of certain items, and overall equipment totals. In addition, formal, annual physical inventory verifications were not done. We also noted that there are no written procedures as to how to record the acquisition of new equipment or the disposition of old equipment. The CUCF should develop and implement formal procedures for the acquisition, control and disposition of equipment. Also, physical inventories should be taken and updated periodically.

In response to our observations, CUCF officials developed a listing of equipment currently in use and retired equipment including the actual costs, control numbers, and dates of acquisition and disposition (if applicable) of the various items. This listing included mostly computers and computer-related equipment. In total, the CUCF's inventory listing included 62 items that cost about \$122,000. Officials also indicated that they would formalize other inventory control procedures.

8. CUCF's equipment lacked adhesive tags to identify items as the property of the CUCF. Every piece of inventory (valued at or exceeding a prescribed dollar amount) should be tagged for accountability. CUCF officials agreed with our observation and began to place identification tags on CUCF equipment prior to the completion of our fieldwork.

Major contributors to this report were Tom Trypuc, Roseline David, Altagracia Rodriguez, and Brian Mason.

We welcome your comments in response to this examination. We wish to express our appreciation to the management and staff of the CUCF for the courtesies and cooperation extended to our auditors during this examination.

Very truly yours,

Steven E. Sossei  
Audit Director

cc: Mr. Matthew Goldstein (Chancellor City University of New York)  
Mr. David Rankert (City University of New York)  
Mr. Robert Barnes (Division of the Budget)

**TABLE I**

**THE CITY UNIVERSITY CONSTRUCTION FUND (CUCF)  
REVIEW OF CONTROLS OVER FINANCIAL OPERATIONS**

A colored “traffic light” legend is included in the table below to assist management in focusing an appropriate level of attention on the issues identified in the CUCF Activities and Comptroller’s Comment sections of the Review Findings.

**Legend:**

	Activities/Comments contain matters that should be of immediate concern to management. (Top - Red Light)		Activities/Comments contain matters which management should consider correcting. (Middle - Yellow Light)		Activities/Comments do not contain issues that require management’s immediate consideration. (Bottom - Green Light)
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**Review Findings:** As part of our review, we asked CUCF’s officials a series of questions and reviewed selected CUCF records. Our review questions, a summary of the CUCF’s activities in each area, and our comments are all summarized below.

	QUESTION	ACTIVITIES	COMPTROLLER’S COMMENT
<b>Board Oversight and Governance:</b>			
	Does the CUCF’s Board of Trustees function in a manner that promotes an ethical business climate within the organization and encourages and supports full compliance with all applicable laws, rules and regulations?	The CUCF is governed by a seven-member Board of Trustees that has established a code of ethics on how to perform their duties. The Board is required to meet monthly, at least nine times each year.	During the 27-month period covered by our audit, the Board should have met 24 times. However, only 10 meetings were held. The Board should meet as required or amend the CUCF’s by-laws. During our examination period the Board had only five, instead of the required seven Board members. The Board should have a full complement of seven members.  See ‘Results of Examination’ issues # 1 and # 2.
	Has the CUCF’s Board of Trustees established appropriate internal controls that promote the economic, efficient and effective operation of the CUCF consistent with its statutory mission and that provide for transparency and accountability in pursuing its strategic business objectives?	Internal controls have been established. It is also the Board’s responsibility to establish and adhere to a code of ethics and to have seven members.	The Board has established appropriate internal controls.

	QUESTION	ACTIVITIES	COMPTROLLER'S COMMENT
<b>Revenue and Collections:</b>			
	Do the CUCF's policies and procedures provide assurance that revenues are billed timely and accurately and are recorded properly in the accounting records?	Revenues consist of DASNY's bonds, CUNY tuition, State and NYC Appropriations and interest earned on these funds. Procedures had been established, but had not been written and formalized at the time we initiated our fieldwork.	Procedures were drafted while auditors were on site and submitted to the Board for approval.  See 'Results of Examination' issue # 3
	Do the CUCF's policies and procedures provide assurance that revenues are being collected timely?	Payments are due at established intervals. Control policies regarding timely and accurate revenue collections have been established.	Established practices are reviewed by a certified public accounting firm.
<b>Cash and Investments:</b>			
	Do CUCF's policies and procedures provide assurance that cash and investments are properly safeguarded, accounted for, and deposited into the appropriate accounts?	The New York City Comptroller invests monies for CUCF and is the custodian of the CUCF's cash and accounts.	CUCF's officials have policies in place that safeguard cash and investments.
	Do CUCF's policies and procedures provide assurance that cash disbursements are properly authorized and recorded?	Cash disbursements are done through the New York City Comptroller's office. They need to be authorized by the Chief Financial Officer.	There are procedures in place to ensure cash disbursements are properly authorized and recorded.

	QUESTION	ACTIVITIES	COMPTROLLER'S COMMENT
<b>Payroll:</b>			
	<p>Do the CUCF's policies and procedures provide assurance that employee time and attendance records are accurate and that leave time is accounted for and recorded properly?</p>	<p>CUCF payroll is processed at both CUNY Central and CUNY Research Foundation. Procedures for proper payroll and personnel practices have been established.</p>	<p>The actual annual salaries paid to three employees did not match the authorized amounts noted in the personnel files. In two cases, the salaries paid exceeded the approved salaries - by \$14,904 and \$2,531, respectively. In the third case the salary paid was less than the personnel record by \$8,284.</p> <p>See 'Results of Examination' issue # 4</p> <p>The format of accrual and leave time of the Employee Profile/Schedule is incomplete.</p> <p>See 'Results of Examination' issue #5</p>
	<p>Do the CUCF's policies and procedures provide assurance that payroll changes (e.g., additions, deletions, and overtime) are processed accurately and timely?</p>	<p>CUCF's policies and procedures require that payroll additions and deletions be approved by officials from the Human Resources and Payroll Departments.</p>	<p>Five out of eight Payroll Authorization Forms (PAFs) which we reviewed were not approved by the Human Resources and Payroll Officials. CUCF should ensure that these procedures are followed.</p> <p>See 'Results of Examination' issue # 6"</p>
<b>Procurement and Contracting:</b>			
	<p>Do the CUCF's policies and procedures provide assurance that purchases are authorized, received, and recorded properly?</p>	<p>CUCF officials follow CUNY policies and procedures for procurement and contracting. Also, the New York City Comptroller is the custodian of CUCF's funds and maintains appropriate documentation.</p>	<p>The policies and procedures established for and used by the CUCF provide adequate assurance that procurements are made properly.</p>
	<p>Do the CUCF's policies and procedures provide assurance that purchases are reasonable and necessary and made in an economical and efficient manner?</p>	<p>CUCF follows the CUNY Procurement and Contracting guidelines.</p>	<p>Internal control policies for the approval of purchases have been established and are followed.</p>

	QUESTION	ACTIVITIES	COMPTROLLER'S COMMENT
<b>Equipment and Asset Management:</b>			
	Do the CUCF's policies and procedures provide assurance that equipment acquisitions and dispositions are authorized and recorded properly, and that a comprehensive inventory of equipment is maintained?	Formal policies and procedures were not established for the acquisition, disposition, and inventory, of equipment. CUCF had an informal list of equipment on hand. During our field work, a formal inventory listing was established.	CUCF should establish policies and procedures for the proper handling of equipment. These should include an annual physical inventory of equipment. Proper procedures began to be implemented during our field work.  See 'Results of Examination' issue # 7
	Do the CUCF's policies and procedures provide assurance that equipment is secured properly and used as intended?	Formal policies and procedures were not established for the tagging and identifying of equipment. CUCF officials began to tag equipment during our field work.	Assets should be tagged as soon as they are acquired. The CUCF should establish controls to secure equipment. Proper procedures began to be implemented during our field work.  See 'Results of Examination' issue # 8
<b>Budgeting and Expenditure Control</b>			
	Do the CUCF's policies and procedures provide assurance that the CUCF's annual budget is prepared accurately and timely?	The budget is prepared from historical and actual data and procedures are adequate.	The budget is prepared accurately and timely by CUCF officials and is reviewed and approved by the Board.
	Do the CUCF's policies and procedures provide assurance that actual operating results are monitored against budgeted estimates and that appropriate revisions to current and future budgets are made as warranted by these operating results?	The CUCF's operating budget is compared monthly against actual expenses.	Policies and procedures ensure proper monitoring of the operating budget.

	QUESTION	ACTIVITIES	COMPTROLLER'S COMMENT
<b>Accounting and Information Systems</b>			
	<p>Do the CUCF's accounting and information systems provide assurance that management has access to timely, accurate and relevant information?</p>	<p>Policies for the accounting and information systems have been established by the CUNY, City of New York and New York State.</p>	<p>The controls over the CUCF's accounting and information systems provide adequate assurance that timely, accurate, and relevant information is available.</p>
	<p>Do the CUCF's policies and procedures provide assurance that the accounting and information systems are secure and that the information is recoverable in case of system failure?</p>	<p>Policies to secure information systems have been established by CUNY and the New York City Comptroller through its Financial Management System.</p>	<p>Adequate controls exist over the CUCF's accounting and information systems.</p>