



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Lehman College: Controls Over Bank Accounts

City University of New York



Report 2014-S-69

April 2016

Executive Summary

Purpose

To determine whether the City University of New York's (CUNY) Central Office (Central) and Lehman College (Lehman) officials adequately assured that all Lehman bank accounts were authorized and used only for appropriate purposes and transactions. The audit covered Lehman's bank accounts for the period of January 1, 2013 through February 5, 2015.

Background

CUNY is the largest urban university in the United States, consisting of 24 constituent colleges, graduate and professional schools. CUNY provides education for more than 269,000 degree-credit students and 247,000 adult, continuing and professional education students. Lehman, located in the Bronx, New York, is one of CUNY's 11 senior colleges, and has more than 12,000 students. Lehman maintains bank accounts for various purposes, such as tuition and fees. During the period January 1, 2013 through December 4, 2014, CUNY reported 336 active or closed bank accounts, including 14 at Lehman. In addition, Lehman-affiliated entities also had nine accounts for auxiliary service, child care, and campus activities.

CUNY's Cash Management and Banking Policy (Policy), effective July 1, 2008, requires the University Controller (UC) and the Vice President of Finance and Administration at each college to ensure that each bank account complies with University policies and procedures. Prior to establishing any new bank account, the Policy requires colleges to notify the UC by completing a "Bank Account Notification Form." The UC notifies the college within five business days of the receipt of the form as to whether there are any concerns with establishing the new account. If not contacted within this time frame, the college can proceed with the account.

Key Findings

- CUNY Central provided us a list of 23 bank accounts that they were aware of at Lehman and its affiliated entities. Six of Lehman's accounts were opened or closed after CUNY's bank authorization policy was established in 2008. However, CUNY Central did not have the required notification forms for four of these accounts. (In their response to our draft report, Lehman officials indicated that notification forms were not required for two of the four accounts because CUNY Central opened the accounts on behalf of Lehman. However, prior to their response, Lehman officials did not provide such information to us, nor did they identify the two accounts or provide supporting documentation of CUNY Central's actions.)
- We identified a Certificate of Deposit account (totaling \$65,034) that was not on CUNY Central's list. This account was opened prior to the implementation of the current policy. Further, our findings point to weaknesses in the monitoring and authorization of bank accounts, which increase the risk that Lehman personnel could conduct transactions using unauthorized accounts.
- A review of the source of funds in Lehman's accounts found that a non-tax-levy account (the "Agency Account") contained tax-levy funds that Lehman officials should have transferred to the State. As of March 31, 2015, these funds totaled over \$1 million. We attributed this problem mostly to inadequate controls to ensure that funds were deposited in the appropriate accounts,

which allowed this practice to continue over several years. Lehman officials subsequently advised us that they remitted over \$1 million of these funds to the State.

- Of the 72 payments (totaling \$1,248,139) paid from five judgmentally selected bank accounts, 25 payments totaling \$114,554 were either improper (did not comply with CUNY and/or State and City policies and procedures) and/or unsupported. For example, the required supporting documentation for a cash advance payment of \$5,629 was altered, incomplete, and/or dated months after the advance.

Key Recommendations

- Fully comply with prescribed procedures for opening new bank accounts and monitoring existing accounts. Develop and implement additional policies and procedures to administer bank accounts, as warranted.
- Transmit all funds due to the State Treasury on a timely basis.
- Effectively separate the duties related to the administration of bank accounts, so that no one person has control over incompatible functions. Where duties cannot be adequately separated, develop and implement appropriate compensating controls.

Other Related Audit/Report of Interest

[City University of New York School of Professional Studies: Procurement Card and Travel Card Purchases \(2013-S-39\)](#)

State of New York
Office of the State Comptroller

Division of State Government Accountability

April 21, 2016

James B. Milliken
Chancellor
City University of New York
205 East 42nd Street
New York, NY 10017

Dear Chancellor Milliken:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage their resources efficiently and effectively. By so doing, it provides accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Lehman College: Controls Over Bank Accounts*. 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.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

Office of the State Comptroller
Division of State Government Accountability

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State Government Accountability Contact Information:

Audit Director: Carmen Maldonado

Phone: (212) 417-5200

Email: StateGovernmentAccountability@osc.state.ny.us

Address:

Office of the State Comptroller
 Division of State Government Accountability
 110 State Street, 11th Floor
 Albany, NY 12236

This report is also available on our website at: www.osc.state.ny.us

Background

The City University of New York (CUNY) is the largest urban university in the United States, consisting of 24 constituent colleges, graduate and professional schools. CUNY provides education for more than 269,000 degree-credit students and 247,000 adult, continuing and professional education students. Lehman College (Lehman) is one of 11 senior colleges within CUNY. Lehman's mission is to provide undergraduate and graduate studies in the liberal arts and sciences and professional education. Lehman, located in the Bronx, New York, has approximately 12,000 students.

Lehman maintains bank accounts for various purposes, such as tuition and fees. During the period January 1, 2013 through December 4, 2014, CUNY reported 336 active or closed bank accounts, including 14 at Lehman. In addition, Lehman's affiliated entities had nine other accounts for auxiliary services, child care, and campus activities. Lehman's Financial Operations Office is responsible for administering these 23 bank accounts. As of May 31, 2015, the balances in these accounts totaled \$2.6 million.

CUNY's Cash Management and Banking Policy (Policy), effective July 1, 2008, requires that the University Controller (UC) and the Vice President of Finance and Administration (VP) at each college assign a responsible official to ensure that each bank account complies with University policies and procedures. Prior to establishing any new bank account, the Policy requires colleges to notify the UC by completing a "Bank Account Notification Form," which is signed by the VP. All requests for banking services must be justified by the college. The Office of the University Controller notifies the college within five business days of the receipt of the form as to whether there are any concerns with establishment of the new account. If not contacted within this time frame, the college can proceed in establishing the new account. The Policy also specifies the types of expenditures which are prohibited. Examples of these expenditures include out-of-town travel advances and travel expense reimbursements.

CUNY also has policies, procedures, and guidelines that impact banking activities and are directly related to the specific types of funds deposited into each bank account and/or if the bank account is established as an incorporated related entity. There are three classifications of bank accounts:

- **Tax-Levy Accounts** - These accounts consist of taxpayer dollars, such as monies collected for tuition and fees. Purchases paid with tax-levy funds must follow CUNY, State, and/or City procurement guidelines, such as: determining if purchases can be made from preferred source vendors, obtaining bids for purchases of \$5,000 or higher, and ensuring advertisement for contracts over \$20,000. All purchases made with tax-levy dollars should be processed through the University's purchasing departments.
- **Non-Tax Levy Accounts** - These accounts consist of funds (also known as "soft monies") which are not derived by tax-levy appropriations or student fees. Purchases paid with non-tax levy funds are not governed by State procurement laws; however, pursuant to CUNY policy and guidelines, sound procurement practices must still be followed. If a contract is partially funded with New York State funds or expected to convert (in full or in part) to New York State funding, then full compliance with State procurement and CUNY

procurement guidelines are required from the onset of any procurement process. Also, a CUNY memorandum dated May 3, 1995, states that college presidents are authorized to approve the expenditure of non-tax levy funds and they are responsible for applying the standards prescribed by Public Officers Law - Section 74, the Code of Ethics applicable to State officers and employees. The memo also states the college president is responsible for applying the standards enunciated in the Public Officers Law (Section 74), and that such expenditures are reasonable, appropriate, and provide a commensurate benefit to the college and University community.

- **Related Entity Accounts** - Related entity accounts can consist of both tax-levy and non-tax levy dollars, depending on the related entity's source of funding and its overall mission. For example, student fees are the primary source of funding for the Student Associations' related entities accounts. Thus, according to The City University Fiscal Handbook for the Control and Accountability of Student Activities Fees, all purchases made with student fees must follow State Laws. In addition, whether the Association or the college purchasing department processes a transaction, the University's purchasing regulations must be followed and the appropriate documentation and internal control requirements must be satisfied. This includes purchasing from sole sources with justification and obtaining formal competitive bids and formal contracts for purchases over \$20,000.

Audit Findings and Recommendations

The audit identified multiple internal control weaknesses that CUNY and Lehman officials need to improve related to the use of bank accounts. These weaknesses impacted various aspects of the banking process, from opening and properly authorizing accounts to making deposits to and disbursements from such accounts. For example, Lehman officials failed to promptly remit about \$1.1 million from its Agency Account to the State Treasury. These weaknesses also increased the risk to CUNY and Lehman of fraud, waste, and/or abuse.

Bank Account Authorization and Completeness of Account Lists

As noted previously, CUNY colleges are required to notify CUNY Central when opening and closing bank accounts. This policy became effective July 1, 2008. Prior to that date, no formal policy for bank accounts existed. Of the 14 bank accounts CUNY Central identified at Lehman, eight were opened before the policy's effective date. For the remaining six bank accounts, CUNY Central had the required notification forms for only two. There is, therefore, no assurance that CUNY Central were notified about four of the six accounts. Table 1 details the six accounts in question.

Table 1

Name of Account	Date Opened or Closed	Bank Account Notification Form
Community Capital Assistance Grant	11/1/2010	No
Lehman College Cont. Ed	11/25/2010	No
Tuition and Fee Collection	7/1/2013	No
Tuition Disbursement	7/1/2013	No
Wilson Loan Fund	1/31/2014	Yes
Good Neighbor Loan Fund	1/31/2014	Yes

(Note: In reply to our draft report, Lehman officials stated that they did not have account notification forms for two of the four accounts lacking such forms because CUNY Central Office Treasury Operations opened the two accounts on behalf of Lehman. As a result, officials indicated that notification forms were not required for the two accounts opened by CUNY Central. However, prior to their response, Lehman officials did not provide such information to us, nor did they identify the two accounts or provide supporting documentation of CUNY Central's actions.)

Also, nine additional bank accounts for auxiliary services, child care, and campus activities were included on the list of bank accounts from CUNY Central.

To test the completeness of CUNY Central's list, we sent confirmation letters to banks located in the proximity of Lehman. Based on the responses, we identified an additional certificate of deposit account that was not on the list from CUNY's Central Office. This account was opened on February 22, 1999, and as of September 30, 2015, the balance in the account was \$65,034.

As the current policy only requires notification of accounts opened after July 1, 2008, there is no assurance that CUNY Central is aware of all active accounts. Weaknesses in the controls over authorization of bank accounts, coupled with the lack of assurance regarding the completeness of CUNY Central's account list, increases the risk that college personnel could use unauthorized accounts and be undetected by CUNY.

Propriety of Bank Account Activities

Transmission of Funds to the State Treasury

To ensure that funds were deposited in the correct accounts, we reviewed the source of funds for a judgmental selection of five accounts. In the Agency Account, an account used by Lehman as a non-tax levy custody account, we found that Lehman inappropriately retained tax-levy funds that should have been transmitted to the State. We attributed this problem mostly to inadequate controls to ensure that funds were deposited in the appropriate accounts, which allowed this practice to continue over several years. As of March 31, 2015, there was over \$1 million of state tax-levy funds in the Agency Account.

In response to our preliminary observations and recommendation, Lehman officials remitted over \$1 million to the State between May and November 2015. However, they could not assign the funds to specific fiscal years because some of the monies were received during State fiscal years that have been closed-out and cannot be reopened.

Fund Payments and Improper Procurements

We also reviewed a judgmental sample of 72 transactions totaling \$1,248,139 from five judgmentally selected bank accounts to determine if funds were used appropriately. We found 25 payments (totaling \$114,554) that were not in compliance with applicable State and CUNY purchasing policies and/or were unsupported, as summarized in Table 2.

Table 2

Name of Account	Number of Payments Reviewed	Number of Exceptions	Amount Reviewed	Exception Amount
Agency Account	16	10	\$113,891	\$66,684
Adult Continuing Education	16	1	305,474	1,415
Imprest	14	6	8,923	1,395
Student Association	14	8	345,469	45,060
Tuition and Fees	12	0	474,382	0
Totals	72	25	\$1,248,139	\$114,554

The following are two examples of payments, from the Student Association Account, related to improper procurements:

- A payment of \$22,977 went to the former food service provider for Lehman College for services purportedly provided two to four years prior to the bill for those services. According to Lehman officials, the vendor submitted the related invoices after it lost the bid for the food service contract in 2014. Most of the invoices (totaling \$17,660) were for services rendered between 2010 and 2012. Moreover, one of the invoices (for \$1,640) had already been paid. Additionally, Lehman officials had no supporting documentation demonstrating how they determined the charges were authentic.
- A cash advance of \$5,629 was made to the college's athletics department for meals. The supporting documents for this payment were either altered, incomplete, and/or dated months after the advance. Lehman officials agreed with our preliminary observations and stated the college has changed its procedures as a result of the audit. Meal advances are now made for one event at a time and are immediately reconciled after the event has occurred.

Because the Student Association Board meets only once a year, its ability to provide adequate oversight of disbursements from the Student Association Account is limited. Consequently, it becomes even more important that other applicable internal controls function effectively to ensure the propriety of Student Association Account transactions.

Improper payments were also made from the Imprest Account, used for petty cash expenses. According to CUNY Policy, petty cash disbursements may not exceed \$250 for a single purchase/receipt, and the disbursement must conform to University Purchasing policies. A payment was made to a part-time college assistant from the Imprest Account for \$249 to purchase food for two nutritional classes offered at the college. The invoice submitted by this employee was attached to a personal expense report. The college assistant was reimbursed for 14 payments (totaling \$2,657) from November 2014 through January 2015. While the individual payments technically complied with the Policy, in the aggregate, they circumvent the spirit of its requirements. In response to our preliminary observations, Lehman officials stated they will discontinue this practice and work with their Purchasing Department to obtain food.

Given the number of payments wherein Lehman did not follow CUNY, State, or City procedures and guidelines, we concluded that Lehman officials need to significantly improve the controls over the administration of the various funds deposited into Lehman bank accounts. These improvements include full compliance with the aforementioned CUNY and State policies and procedures governing the administration and use of such funds.

Other Matter - Segregation of Duties

Good internal control over procurement includes the adequate segregation of duties so that one person does not control all phases of the procurement processing cycle (including making payments) from beginning to end, and thus be in a position to both perpetrate and conceal errors or irregularities. In certain instances, we found that Lehman officials did not adequately segregate

incompatible duties. For example, we determined that:

- A \$15,951 payment was made to a national search firm contracted to assist the college with a search for a Dean. A Lehman Vice President approved the \$15,951 disbursement, despite the fact that he also signed the contract; and
- A \$20,000 payment was made to an organization specializing in project prioritization guidance. The contract was signed by a Lehman Vice President, who also approved the invoices for payment.

Recommendations

1. Fully comply with prescribed procedures for opening new bank accounts and monitoring existing accounts. Develop and implement additional policies and procedures to administer bank accounts, as warranted.
2. Transmit all funds due to the State Treasury on a timely basis.
3. Strengthen internal controls to assure that all funds are properly deposited and disbursed from Lehman bank accounts by:
 - Adhering to New York State, City and CUNY requirements; and
 - Training Finance and Administration employees on the appropriate policies and procedures related to bank accounts and banking operations.
4. Effectively separate the duties related to the administration of bank accounts, so that no one person has control over incompatible functions. Where duties cannot be adequately separated, develop and implement appropriate compensating controls.

Audit Scope and Methodology

The objective of this audit was to determine whether CUNY Central and Lehman officials adequately assured that all Lehman bank accounts were authorized and used only for appropriate purposes and transactions. The audit covers Lehman bank accounts for the period of January 1, 2013 through February 5, 2015.

To accomplish our objective, we interviewed Lehman officials to obtain an understanding of their internal controls related to banking operations, and of their policies and procedures. We reviewed pertinent sections of State procurement policies and CUNY guidelines. We also reviewed a judgmental sample of 72 transactions from five selected bank accounts. The transactions were judgmentally selected based on high dollar amounts or unusual descriptions. We examined supporting documentation, procurement files, and disbursements made from bank accounts. We also canvassed banks located near the college to determine whether there were any accounts which were not disclosed by CUNY Central.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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. 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 (some of whom have minority voting rights) to certain boards, commissions, and public authorities. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

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.

Reporting Requirements

We provided a draft copy of this report to CUNY officials for their review and formal comment. Their comments were considered in preparing this final report and are attached in their entirety at the end of this report. In their response, officials agreed with our findings and indicated that they have begun to take corrective actions to address them.

Within 90 days after the 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 not implemented, the reasons why.

Contributors to This Report

Carmen Maldonado, Audit Director

Abe Fish, Audit Manager

Christine Chu, Audit Supervisor

Cheryl May, Examiner-in-Charge

Kenneth Liu, Senior Examiner

Brenda Maynard, Senior Examiner

Adam Pischel, Staff Examiner

Division of State Government Accountability

Andrew A. SanFilippo, Executive Deputy Comptroller

518-474-4593, asanfilippo@osc.state.ny.us

Tina Kim, Deputy Comptroller

518-473-3596, tkim@osc.state.ny.us

Brian Mason, Assistant Comptroller

518-473-0334, bmason@osc.state.ny.us

Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Agency Comments



LEHMAN
COLLEGE

OFFICE OF THE VICE PRESIDENT
FOR ADMINISTRATION AND
FINANCE

Shuster Hall, Room 355
250 Bedford Park Blvd West
Bronx, NY 10468

Phone: 718-960-8539
Fax: 718-960-7135
www.lehman.edu

Ms. Carmen Maldonado, Audit Director
Office of the State Comptroller
Division of State Government Accountability
59 Maiden Lane – 21st Floor
New York, NY 12236

March 28, 2016

RE: Draft Report: 2014-S-69- Lehman College: Controls Over Bank Accounts

Dear Ms. Maldonado:

We have reviewed the above-referenced draft report and would like to thank the Office of the State Comptroller for their efforts in reviewing Lehman College's banking operations and for the opportunity to comment on the report's findings and recommendations. As mentioned in the draft report, Lehman College had been given the opportunity to meet with the State Comptroller to discuss their preliminary findings and offer additional information. We thank the State Comptroller for considering our responses in preparing this report.

Lehman College agrees with the State Comptroller's findings and has begun to take corrective action to address their concerns. We would like to take this opportunity, however, to clarify an issue raised concerning CUNY's procedures for notifying the University Controller upon the opening of new bank accounts. While Lehman College does recognize the importance of this control mechanism and does follow this policy, we do acknowledge that we were unable to provide the auditors with confirming documentation for four College-held bank accounts. We would like to bring to the Comptroller's attention that for two of the four accounts cited, the Tuition and Fee Collection Account and the Tuition Fee Disbursement Account, this notification form was not required because CUNY Central Office Treasury Operations had opened these accounts on behalf of the College. Central Office notification forms are only required for bank accounts opened by the College, the purpose of the forms being to notify the University Controller's Office of the College's desire to do so. Even though the required forms for establishing the two accounts could not be located, the University Controller's Office has been aware of the accounts' existence through the College's reporting of the accounts and their related balances in the University banking system.

Lehman College recognizes the importance of maintaining adequate internal controls, having the appropriate segregation of duties, ensuring the sufficient training of staff, and the adhering to all related policies and procedures and welcomes the feedback and recommendations resulting from the State Comptroller's review of our operations. As mentioned by the State Comptroller in the draft report, the College has begun reviewing our current policies and procedures and implementing the necessary changes to address many of the State Comptroller's concerns. These items will be further outlined in detail in our Corrective Action Plan which will be prepared and submitted within the 90 day statutory deadline.

Once again we thank you for your efforts and recommendations.

Respectfully submitted,

Vincent W. Clark
Vice President for Administration and Finance

