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

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Division of State Government Accountability

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# **Central Office: Controls Over Bank Accounts**

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## **City University of New York**

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Report 2015-S-94

November 2017

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# Executive Summary

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## Purpose

To determine whether officials of the City University of New York's (CUNY) Central Office adequately ensured that all bank accounts were authorized and only used for appropriate purposes and transactions. The audit covers CUNY Central Office bank accounts for the period January 1, 2013 through July 13, 2016.

## Background

CUNY is the public university system of New York City, and the largest urban university in the United States, consisting of 24 institutions. More than 270,000 degree-credit students and 273,000 continuing and professional education students are enrolled at campuses located in all five New York City boroughs. CUNY Central Office provides administrative support and business services to its institutions.

CUNY's Cash Management and Banking Policy (Policy), effective July 1, 2008, requires the University Controller to ensure that each bank account complies with University policies and procedures. According to the Policy, the Office of the University Controller (OUC) is responsible for managing centralized cash collections, including centralized tuition and payments of fees. Additionally, the Treasurer oversees Cash Management, Student Financial Aid Distributions, and the University Bursar.

## Key Findings

- There were multiple internal control weaknesses related to the use of bank accounts. These weaknesses impacted various aspects of the banking process, including: opening and properly authorizing accounts; making deposits to accounts; and ensuring all accounts are used for appropriate business purposes. Collectively, these weaknesses increased the risk of fraud, waste, and/or abuse from unauthorized bank accounts and expenditures.
- CUNY lacks a formal policy to address custodial credit risk. As of June 30, 2016, CUNY's Money Market balances of about \$163 million were uninsured and uncollateralized beyond the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000.

## Key Recommendations

- Fully comply with prescribed procedures for opening new bank accounts and monitoring existing accounts.
- Strengthen controls to ensure that funds are appropriately disbursed from bank accounts by: reinforcing with staff the importance of adhering to New York State, City, federal, and CUNY requirements; and training OUC employees on the required policies and procedures related to bank accounts and banking operations.
- Develop and implement formal policies and procedures for repurposing bank accounts and ensuring that large bank account balances are adequately collateralized or otherwise secured.

## **Other Related Audit Reports/Reports of Interest**

[Lehman College: Controls Over Bank Accounts \(2014-S-69\)](#)

[CUNY SPS: Controls Over Bank Accounts \(2014-S-78\)](#)

[Medgar Evers College: Controls Over Bank Accounts \(2015-S-92\)](#)

[Borough of Manhattan Community College: Controls Over Bank Accounts \(2015-S-93\)](#)

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**State of New York  
Office of the State Comptroller**

**Division of State Government Accountability**

November 29, 2017

Mr. James B. Milliken  
Chancellor  
City University of New York  
205 East 42<sup>nd</sup> 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 *Central Office: 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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This report is also available on our website at: [www.osc.state.ny.us](http://www.osc.state.ny.us)

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## Background

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The City University of New York (CUNY) is the public university system of New York City, and the largest urban university in the United States, consisting of 24 institutions. More than 270,000 degree-credit students and 273,000 continuing and professional education students are enrolled at campuses located in all five New York City boroughs. CUNY Central Office provides administrative support and business services to its institutions.

CUNY's Cash Management and Banking Policy (Policy), effective July 1, 2008, requires the University Controller to ensure that each bank account complies with University policies and procedures. According to the Policy, the Office of the University Controller (OUC) is responsible for managing centralized cash collections, including centralized tuition and fees payments. The centralized process is significantly attributable to CUNY's rollout of its Enterprise Resource Planning Project called "CUNYfirst" (Fully Integrated Resource & Service Tool). CUNYfirst is designed as an integrated suite of software modules to replace legacy computer systems in the areas of Student Administration, Finance, and Human Resources.

The OUC is responsible for various banking activities including: authorizing signers for electronic funds transfers (EFTs) and checks drawn on the University's bank accounts for CUNY Central Office; maintaining an updated list of authorized signatories for checks and EFTs, and immediately removing from its list and notifying the bank of a signatory who is no longer employed by the University; and annually surveying banking institutions in the local community to ensure there are no existing accounts that were established without notification to the OUC.

The University Treasurer oversees Cash Management, Student Financial Aid Disbursements, and the University Bursar. Cash Management is responsible for the University's treasury functions, which include: maintaining and managing banking relationships; issuing guidance on treasury and banking matters; coordinating with pertinent State and City finance departments; developing cash flow forecasts; managing the centralized collection of tuition and fees; and prudently investing the University's working capital.

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") that are not derived from tax levy appropriations or student fees. Purchases paid with non-tax levy funds are not governed by State procurement laws; however, pursuant to

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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 and CUNY procurement guidelines are required from the onset of any procurement process.

- **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 Student 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.

In addition, the University Controller is responsible for designating a custodian of the petty cash (Imprest) fund. The custodian is directly responsible for the safekeeping and disbursement of petty cash. Disbursements (purchases) may not exceed \$250 for a single purchase/receipt. Further, according to CUNY's Central Petty Cash Guidelines (revised June 10, 2009), petty cash transactions must be made for reasonable and necessary emergency expenses. The guidelines also state that large purchases must be made using a purchase requisition.

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## Audit Findings and Recommendations

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The audit identified multiple control weaknesses regarding the use of funds in the bank accounts under Central Office control. These weaknesses impacted various aspects of banking processes, thus increasing the risk of fraud, waste, and/or abuse from unauthorized bank accounts and expenditures. We recommend that CUNY officials strengthen the control environment to ensure that funds are appropriately disbursed from bank accounts by: reinforcing with staff the importance of adhering to New York State, City, federal, and CUNY requirements; and training Finance and Administration employees on the applicable policies and procedures related to bank accounts and banking operations. In addition, there is a need to adequately collateralize deposits that exceed the Federal Deposit Insurance Corporation (FDIC) limit.

### Bank Account Authorization and Completeness of Account Lists

The Central Office is required to annually survey banking institutions in the local community to ensure there are no existing accounts that were established without notification to the OUC. We requested copies of the letters sent to banks during the period January 1, 2013 to June 22, 2016. However, CUNY officials did not provide any letters for 2013 and 2014. For 2015 and 2016, CUNY officials initially provided four letters to banks requesting information about CUNY bank accounts. Also, prior to issuing preliminary audit findings to CUNY officials, auditors physically checked the files where these letters were reportedly stored and found no additional letters. In response to our preliminary findings, CUNY provided 50 letters addressed to banks in 2015. However, 46 of the 50 letters were not signed, and it is unclear whether they were actually mailed to the banks. For 2016, CUNY provided 46 letters and all of them were signed.

On June 22, 2016, the University Treasurer provided us with a list of 49 CUNY Central Office bank accounts for the period January 1, 2013 to June 22, 2016. Of these 49 accounts, 32 were active and 17 were closed. We sent confirmation letters to banks located in the proximity of Central Office to determine whether there were any CUNY accounts that were not included on CUNY's listing. We identified two bank accounts that were closed during our audit scope period that were not on CUNY's list. One account (the CUNY Investment Pool) had a balance of \$24,950 on June 18, 2013. The second account was referred to as a "sister" account. A letter was sent by CUNY Central Office to the bank on June 27, 2013 requesting the account be closed. Information from the bank indicated that there was no balance in this account.

We also determined that OUC officials did not use the required Bank Account Notification form to formally open and close bank accounts. Instead, CUNY personnel opened and closed bank accounts through verbal approvals from the University Treasurer and the Director of Treasury. Officials stated the Bank Account Notification form is only applicable to the colleges, and the University Controller must approve any account that is created and the signatories on these accounts. However, because there was no formal approval process to open and close bank accounts, there was limited assurance that the University Controller actually approved the bank accounts and the signatories. We identified problems with the signatories for two CUNY Central Office accounts.



Specifically, our confirmations from Bank A for two accounts identified a former University Treasurer, who retired in March 2014, as a signatory. The balances in the two accounts totaled over \$3 million as of May 31, 2016. We contacted the bank to confirm the information, and were advised by a bank official that the former Treasurer was still listed as a signatory on one of the accounts. We advised CUNY officials of this matter, and they contacted the bank. Although the bank advised CUNY that the former treasurer was terminated as a signatory per CUNY's request on March 1, 2014, this change was not reflected on the bank's signature card for the account. We obtained this information by sending a bank confirmation letter in May 2016 and shared it with CUNY officials.

In addition, Bank B's response disclosed discrepancies between the bank's records of authorized signatories and CUNY's corresponding records. Specifically, the Vice Chancellor of Budget, Finance and Fiscal Policy was not listed as an authorized signatory by Bank B, but was listed as a signatory on the University Treasurer's list. Further, the University Deputy Controller was listed as an authorized signatory by Bank B, but was not listed as such on the University Treasurer's list. Central Office officials stated that they have updated their records to reflect the appropriate signatory information.

Also, CUNY transferred funds from Bank A to Bank B in 2013. Eight new bank accounts were opened after the transfer. We requested the required authorization documentation for these eight accounts; however, CUNY officials provided documentation for only five accounts. For the other three accounts, no documentation was provided. Further, for all eight accounts, there were no formal justifications of the need for those accounts.

Additionally, two accounts at Bank B were "repurposed." One account was repurposed twice and the other once. One account was repurposed from "Financial Aid Payment" to "Student Association Payment," and then to "Adjunct Health Payment." For the other account, CUNY responded that only the name was changed, but the purpose remained the same. Nevertheless, we found no formal authorization or justification for the repurposing of the accounts. In response to our preliminary findings, CUNY officials indicated that repurposing of bank accounts does not occur often. Nonetheless, officials should consistently comply with prescribed procedures when changing the purpose of a bank account.

These control weaknesses impacted various aspects of the banking process, including opening and properly authorizing accounts, making deposits to accounts, and ensuring all accounts were required for genuine business purposes. Collectively, these weaknesses increased the risk of unauthorized bank accounts and/or improper expenditures. As detailed in our audit report of bank accounts administered by CUNY's School of Professional Studies (Report 2014-S-78, issued on June 2, 2015), a former employee obtained and signed CUNY checks for significant dollar amounts and then used the funds to create unauthorized bank accounts from which he misappropriated money. Consequently, officials should take prompt actions to strengthen internal controls over Central Office bank accounts with large balances.

## Money Market Accounts

CUNY's Policy requires the University Controller to assign a responsible official to ensure that each bank account complies with University policies and procedures. CUNY Central Office has four Money Market (MM) accounts. The purpose of these accounts is to earn interest on CUNY's short-term investments of funds, such as tuition and fees and other revenues (e.g., royalties and bookstore commissions). According to the University Treasurer, the multiple accounts were opened to minimize the effects of diminishing rates of return, since interest earnings decline once an account's balance exceeds certain thresholds. The University Treasurer also stated that monies are periodically withdrawn from these accounts to meet State and City obligations as well as to return funds to the colleges.

In October 2007, the Government Finance Officers Association issued best practice guidelines on Collateralizing Public Deposits. These guidelines recommend that governmental entities should implement a program of prudent risk control. Such a program may include a formal depository risk policy, credit analysis, and use of fully secured investments. In the absence of a state program for pooling collateral, the guidelines recommend that public entities should establish and implement collateralization procedures, including procedures to monitor their collateral positions. For some months during our audit period, we noted that the balances of Central Office's bank accounts exceeded \$190 million in total. However, their combined balances were only insured up to the current FDIC deposit limit (\$250,000) per account.

It is prudent for a governmental entity to have policies and procedures to mitigate the risks to large bank account balances in the event of the failure of a depository financial institution. However, CUNY's Policy does not address this risk. Further, as of June 30, 2016, CUNY's MM balances of nearly \$164 million were uninsured and uncollateralized (with the exception of FDIC coverage). We asked Central Office officials why there was no formal policy regarding the use of MM accounts and why Central Office did not participate in the State's Short Term Investment Program (STIP). Officials replied that while there was no formal policy, the University Treasurer was developing written procedures to address these issues. Officials also indicated that their current investment practices were consistent with CUNY's Policy, which states that colleges and related entities should not maintain accounts at any bank in excess of FDIC insurance limits, unless that bank is rated four stars or higher by rating agencies. According to officials, their primary bank is rated four stars. Nevertheless, given the magnitude of Central Office's bank account balances (sometimes in the tens of millions of dollars), we maintain that such balances should be adequately collateralized and insured.

Additionally, when we analyzed the four MM accounts, we found that all four CUNY MM accounts included both tax levy and non-tax levy funds. Moreover, when we reviewed 38 transfer transactions from these accounts totaling \$2.77 billion, we found that 23 of the 38 disbursements (totaling \$2.39 billion) were payments back to tax levy accounts, and the remaining 15 disbursements (totaling \$379 million) were transferred into non-tax levy accounts. Without adequate accounting and control systems to identify the source and use for each type of funding that is included in each of its bank accounts, there is insufficient assurance that funds are used for their intended purposes.

Further, we determined that these accounts had considerable periods of inactivity, ranging from 4 to 19 months. We questioned why CUNY Central Office maintained such high balances (of at least \$39 million) in a MM account for extended periods of time, when CUNY is otherwise required to transfer these funds to the State, City, and/or the Colleges, based on the types of funds in the accounts. The following table provides details of the four MM accounts, including the durations of inactivity, and the dollar amounts of balances during periods of inactivity.

Money Market Account	Dates of Inactivity	Number of Months of Inactivity	Minimum Balance During Period
I	01/01/2013 - 08/31/2013	8 months	\$49 million
II	09/01/2014 - 12/31/2014	4 months	\$101 million
III	01/01/2013 - 07/31/2014	19 months	\$49 million
IV	02/01/2014 - 08/31/2014	7 months	\$39 million

## Reviews of Selected Accounts' Activity

Based on relative risk, we selected two accounts (Account 1180 and the Imprest account) for further examination of their activity. We identified procedural deficiencies in the administration of both accounts.

### *Account 1180*

Account 1180's original purpose was to serve as CUNY's "Prepaid Draw" account, wherein funds were automatically transferred to this account, from an account at another bank, for distribution to students receiving scholar card payments. However, Account 1180 was repurposed into the "CUNY Athletics" account in August 2013. In January 2013, there were four transfers totaling \$3,475,498 to this account. Three of the four transfers (totaling \$3,274,895) came from CUNY's "General Exchange" account at Chase Bank. The last transfer for \$200,603 came from CUNY's "Financial-Aid" revenue account with Citibank. We requested documentation from Treasury officials to support these four transfers. Initially, the Treasurer sent us a summary report for student financial aid. The report showed \$3,274,895 in debit card payment activity, but no documentation identifying the recipients of payments or the disposition of the remaining \$200,603.

According to CUNY's Treasurer, because transfers to students' accounts are made pursuant to a contract between students and Citibank, CUNY Central Office records only show whether or not the required amounts were transferred to Citibank, but not the detail (composition) of the amounts in question. Thus, there was no initial support to show who received these payments or the amounts. After we issued preliminary findings to CUNY, Central Office officials provided auditors with a document showing the names of individuals who purportedly received the funds. Nonetheless, Treasury officials did not provide any detailed documentation for the \$200,603 they said was transferred from CUNY's "Financial-Aid" revenue account to its "General Exchange" account.

After the four disbursements, Account 1180 then remained dormant for six months before it was repurposed for "CUNY Athletics." The account's new purpose was for the receipt of credit card donations and donations for CUNY's Golf Classic, an annual event to raise money for student athletics. We requested CUNY officials to provide us with the requirements for repurposing a bank account. According to CUNY's Treasurer and former Director of Treasury (Director), there were no written policies or procedures for repurposing an account. The decision is made informally by the Treasurer and the Director. Officials further stated that they ensure all applicable forms are completed and submitted to the bank, and they determine who will be the signatories on the bank account. According to officials, when changes are needed for any bank account, they are discussed with the University Controller, bank forms are completed by the Director, signatures are obtained, and forms are emailed or faxed to bank officials.

CUNY Athletics raised \$77,557 and \$105,558 at the 2013 and 2014 Golf Classic events, respectively, netting profits of \$29,000 and \$44,000, respectively, after expenses. However, based on a discussion with the Executive Director of Student Athletics, we determined that there was no documentation of the uses of those funds in 2013 and 2014. The Executive Director added that the profits from the prior years' events were used to sponsor a "Goodwill Tour" to Cuba for select student-athletes in 2016. CUNY officials provided us with documentation that 16 students and seven CUNY employees traveled to Cuba from April 21, 2016 through May 1, 2016, at a cost of \$25,538.

In addition to obtaining information about the Golf Classic's fundraising activities, we requested policies and procedures for purchases with such funds from CUNY and CUNY Athletics. We found there were no formal policies specific to the Athletics fund. However, CUNY officials told us that CUNY Athletics staff were required to submit an invoice and a check request form to the Central Office to use Athletic fund balances to pay bills. CUNY Central Office officials provided information for 31 payments, totaling \$72,652, paid from Account 1180 during our audit period. We selected a judgmental sample of 11 transactions totaling \$60,927 from the account and found ten transactions totaling \$56,065 were either improper (did not comply with CUNY and/or State and City policies and procedures) or unsupported. For example, we noted:

- CUNY Central Office paid a caterer \$22,912 for an event. However, the caterer was not selected through a competitive process.
- A handwritten invoice in the amount of \$5,780, of which \$2,617 had no breakdown of what was actually purchased other than "merchandise." The invoice also showed a purchase of \$540 in gift certificates. The description on the check request form indicated that the payment was for golf outing supplies, carts, etc. However, there was no detail indicating who used the carts or received the gift certificates.
- A check request form for \$1,279 to pay for golf outing prizes. The check was mailed to someone in California who ordered the merchandise on behalf of the Athletics Department. Officials explained that this person is a former CUNY employee who received a discount from the manufacturer. However, the items listed on the purchase order acknowledgment differed from the invoices. In addition, there was no packing slip detailing what was actually delivered.

### *Imprest Fund Account*

Our review of the Imprest fund account also found payment activities that were not in compliance with applicable State and CUNY purchasing policies and/or were unsupported. We selected a judgmental sample of 13 transactions (totaling \$14,245) from the 148 transactions (totaling \$51,736) from CUNY Central Office's Imprest account for review. We found 12 transactions totaling \$13,519 that were not in compliance with the guidelines. Examples of these include:

- Four payments totaling \$9,983 were made to the U.S. Postal Service from October 7, 2014 through October 14, 2014. These ranged from \$300 to \$6,500, each exceeding the \$250 limit set by CUNY's OUC Financial Management Guidelines. According to the University Treasurer, these were emergency transactions.
- A transfer of \$700 to CUNY's "Graduate Center" bank account without documentation supporting why the funds belonged to the Graduate Center. Officials indicated that they had previously received the monies in error and that the funds belonged to the Graduate Center; however, officials did not provide documentation to support this assertion.

We attribute the problematic transactions detailed in this report to weaknesses in CUNY Central Office's system of internal controls over banking functions. Senior officials within the OUC should develop and implement sufficient policies and procedures to administer bank accounts, including account disbursements, to help minimize the risks of fraud, waste, and/or abuse.

### **Recommendations**

1. Fully comply with prescribed procedures for opening new bank accounts and the monitoring of existing accounts.
2. Develop and implement formal policies and procedures for repurposing bank accounts and ensuring that large bank account balances are adequately collateralized or otherwise secured.
3. Strengthen controls to ensure that funds are appropriately deposited to and disbursed from accounts by:
  - Reinforcing with staff the importance of adhering to New York State, City, federal, and CUNY requirements; and
  - Training OUC employees on the appropriate policies and procedures related to bank accounts and banking operations.

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## Audit Scope, Objective, and Methodology

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The audit's objective was to determine whether CUNY's Central Office adequately ensured that all bank accounts were authorized and only used for appropriate purposes and transactions. The audit covers CUNY Central Office's bank accounts for the period January 1, 2013 through July 13, 2016.

To accomplish our objective, we interviewed CUNY Central Office officials to evaluate the internal controls related to banking operations and be familiar with their policies and procedures. We reviewed sections of State procurement policies and CUNY and federal guidelines. We reviewed supporting documentation, procurement files, and disbursements made from our judgmental sample of bank accounts. We reviewed a judgmental sample of transactions from the three selected accounts (Money Market, Athletics, and Imprest). The transactions were judgmentally selected based on several factors, such as high dollar amount, unusual description, and vendor information. We also canvassed 45 banks located near CUNY Central Office to determine whether there were any accounts that it did not disclose.

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

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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

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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 to this report. In their response, CUNY officials indicated they do not agree with the findings because they have controls in place. However, they agreed to implement new procedures and strengthen other controls.

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.

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## Contributors to This Report

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**Carmen Maldonado**, Audit Director  
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## Division of State Government Accountability

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### Vision

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

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



# Agency Comments



Senior Vice Chancellor and  
Chief Financial Officer  
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October 27, 2017

Ms. Carmen Maldonado  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
59 Maiden Lane – 21<sup>st</sup> Floor  
New York, NY 10038

Re: The City University of New York--Central Office: Controls Over Bank Accounts - Report  
2015-S-94

Dear Ms. Maldonado:

Thank you for the opportunity to respond to the above-referenced audit report. While we do not agree with some of the Key Findings in the Executive Summary, as well as some of the detailed Audit Findings in the body of the audit report, we feel that the recommendations that we are responding to below are generally fair.

We have determined that it is not productive for the Office of the State Comptroller or CUNY to have us author another multiple page response detailing all the statements and observations in this audit report that we disagree with (and have evidence to support), as we did for the preliminary draft. Instead, we would like to move forward and build on the collaborative working relationship between the University and OSC as we continue to discuss these issues.

Please refer to the below for our response to each of the recommendations outlined in the report.

1. *Fully comply with prescribed procedures for opening new bank accounts and the monitoring of existing accounts.*

**University Response:** The Central Office complies with its current Cash Management and Banking policy with respect to opening new bank accounts. As previously communicated, our current policy (page 3 on Establishing Bank Accounts) does not require the University Controller to notify himself or herself when the University Controller's Office needs to open or close a bank account. Instead, we currently employ other procedures that ensure that there are proper controls over the establishment and closing of bank accounts in the central office. For example, the University Controller approves the signatories on bank accounts.

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Comment  
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\*  
Comment  
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\*See State Comptroller's Comments, page 19.

Although not required by our current policy, we have started to complete the notification forms for the central office.

We are in the process of updating the current Cash Management and Banking policy and plan to present it to our Board of Trustees by the end of the calendar year. This new policy will address the establishment and closing of bank accounts University-wide.

2. *Develop and implement formal policies and procedures for repurposing bank accounts; and ensuring that large bank account balances are adequately collateralized or otherwise secured.*

**University Response:** CUNY is in the process of updating our current Cash Management and Banking policy, and although bank account repurposing is rare, we will include a section in the policy that addresses this circumstance.

In response to collateralization, CUNY is in compliance with its current Cash Management and Banking Policy, which addresses custodial credit risk (Page 10, section B, FDIC limits). Our policy states “colleges and related entities should not maintain accounts in any one bank in excess of FDIC insurance limits, unless the bank is rated four stars or better by Bauer Financial.” Our primary banking partner is rated four stars. Furthermore, the bank is on the list of systematically important banks and is subject to regular stress tests and stringent reserve requirements.

Additionally, the balances that the auditors are referring in their recommendation relate to Money Market accounts. CUNY currently utilizes these accounts for short-term investment purposes, and investment accounts are typically not collateralized. Nevertheless, the University will be developing a new Working Capital policy that will address, among other things, short-term investing and risks.

3. *Strengthen controls to ensure that funds are appropriately deposited to and disbursed from accounts by:*
  - a. *Reinforcing with staff the importance of adhering to New York State, City, Federal and CUNY requirements;*

**University Response:** We agree to strengthen controls over the procurement and accounts payable operations related to the Athletics accounts, and have already taken steps to enhance our controls in this area and to ensure that we are in compliance with the new Purchasing Policy that was approved at the February 2017 Board of Trustees’ meeting. The new policy codifies the requirements for purchasing at the central office and the broader University.

While we also agree that enforcing our guidelines is important, we also believe that ensuring that the guidelines are clear, comprehensive, and current is equally important. As mentioned above, we will therefore periodically review and update our guidelines to ensure that they are clear, and we will also provide training to employees.

Additionally, we would like to clarify how the University tracks and accounts for our sources and uses of funds while at the same time maximizing our short-term investments. Our

financial system allows the University to track each type of inflow and outflow separately in both the subsidiary ledger (for scholarships and financial aid) and the general ledger. At any point in time, CUNY can print a report that shows how much is in each fund.

In order to maximize our investment returns, CUNY follows best practices related to our cash management activities in that we pool funds for investment purposes (this is consistent with other non-for-profits, businesses and state and local governments, including the State of New York). CUNY manages and accounts for its cash in a manner that is very similar to how the State manages the Income Fund Reimbursable (IFR) cash deposits of CUNY and other state agencies and is common and expected practice. The cash that is deposited in the various IFR accounts on behalf of CUNY are subsequently invested by the State, and the State accounts for each IFR account. The report that CUNY generates from the Statewide Financial System (SFS) simply shows a 'Cash' balance and does not indicate which cash or investment account the funds reside. When the State invests or moves money related to the IFR funds, they do not make an entry into each individual IFR account reflecting the investment or transfer of these funds; however, the accounting for each individual IFR fund is correct. CUNY Treasury is acting similarly to our peers in that it invests cash in a pooled manner. This is similarly true for one's personal bank accounts: the bank provides statements to customer A that shows their cash balance; however, in the background, the bank is lending these deposits to customer B. Customer A's bank statement does not indicate this, but their account is still accurate and reflects the bank's liability to Customer A. All inflows and outflows are recorded. This is considered best practice.

*b. Training OUC employees on the appropriate policies and procedures related to bank accounts and banking operations.*

**University Response:** CUNY agrees to hold several training sessions when it issues its new policies, and we will refresh the staff and college's understandings of the policies on a periodic basis.

Thank you again for the opportunity to respond to this audit report. Please contact me with any questions.

Sincerely,



Matthew Sapienza  
Senior Vice Chancellor and Chief Financial Officer  
The City University of New York

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## State Comptroller's Comments

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1. While we stand by our findings, we agree that it would not be a productive or a good use of limited resources to spend time disputing CUNY's response that the audit findings are not supported. Rather we view CUNY's plans, establishing new procedures and enhancing its policies to strengthen controls over bank accounts and the use of tax levy funds, to be a positive development.
2. In its response, CUNY states that Central Office follows current policy regarding new bank accounts, and then shortly thereafter states that it does not follow a certain aspect of the policy and instead uses alternative procedures. Thus, the actual policy followed by CUNY Central Office is not currently documented. In formulating its new policy, these differences in procedures that Central Office follows should be documented.