The City of New York
Office of the Comptroller
Bureau of Management Audit

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Comptroller

Audit Report on the Borough of Manhattan Community College Auxiliary Enterprises Corporation

MG02-139A

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EXECUTIVE SUMMARY

Background

The City University of New York (CUNY) consists of 10 senior colleges, six community colleges, one technical college, one graduate school, one law school, an accelerated medical program, and a medical school. The community colleges receive funding from the State and City and most of their revenues from tuition and fees. They also receive non-tax levy revenue from auxiliary enterprises such as food services, bookstores, and other operations at the colleges. The Borough of Manhattan Community College (BMCC) is one of the six community colleges of CUNY. Its Auxiliary Enterprises Corporation, Inc., (Auxiliary) manages its non-tax levy revenue. The Auxiliary's day-to-day fiscal affairs are run by the College's fiscal office.

The Auxiliary receives non-tax levy revenue from commissions from: payphones, photocopy machines, ice-cream vending machines, a bookstore, and a cafeteria. It also receives revenue from facility rentals and investment interest. For Fiscal Year 2001, the Auxiliary's financial statement reported revenue totaling $581,982 and expenses totaling $779,507, resulting in a deficit of $197,525. This deficit decreased the fund balance of $1,264,677 at the end of Fiscal Year 2000 to $1,067,152 by the end of Fiscal Year 2001.

The Auxiliary is governed by a 13-member Board of Directors consisting of: the President of the College or designee, who serves as the chair of the Board; four directors appointed by the President from among the administrators of the College; two faculty members appointed by the President from a panel of at least four teaching faculty elected by the College's Faculty Council; the President of the Student Government Association; and five students who are elected by the Student Senate.

In 1983, CUNY amended its bylaws to set up Auxiliary Enterprise Boards such as the one established at BMCC. The Auxiliary Enterprise Boards provide oversight in the management and monitoring of the receipt and use of non-tax levy funds.

Objectives

The objectives of this audit were to determine whether revenues and expenses were accurately recorded in the general ledger, whether the internal control structure over the processing of revenues and expenses is adequate, and whether expenses incurred by the Auxiliary were reasonable, appropriate, and in compliance with prescribed guidelines and bylaws.

Scope and Methodology

The scope of our audit was Fiscal Year 2001. To meet the audit objectives, we reviewed the Auxiliary's bylaws, procedural manual, books, records, and accompanying data. We also interviewed the Acting Director of Fiscal Services who is responsible for the Auxiliary's day-to-day operations.

To determine whether the revenue amounts were fairly stated, we reviewed the cash receipts for the months of April, May, and June 2001. We traced the amounts in the general ledger to the cash receipts journal, deposit slips, and bank statements. We also reviewed the facility rental invoices and agreements for April, May, and June 2001.

To determine whether the amounts reported for expenses were fairly stated, we reviewed the 90 cash disbursements for the months of April, May, and June 2001. We traced the recorded amounts from the general ledger to the cash disbursements journal, canceled checks, and purchase requisitions.

To determine whether internal controls over the processing of revenues and expenses were adequate, we reviewed the procedures relating to cash receipts, cash disbursements, and payroll found in the "Fiscal Services Department Procedural Manual for the BMCC Auxiliary Enterprises Corporation." We performed limited tests of transactions to determine whether responsibilities were adequately segregated, assets were safeguarded, and the authorization and approval requirements were met. We also reviewed purchase requisitions, and copies of checks to make sure they had the proper authorization.

To determine whether the expenses incurred were in compliance with prescribed guidelines and bylaws, we reviewed: CUNY "Guidelines on the Use of Non-Tax Levy Funds," § 16.10 of the CUNY Board of Trustees bylaws, applicable sections of the CUNY "Fiscal Handbook for the Control and Accountability of Student Activity Fees," and the Auxiliary bylaws.

In determining whether expenses were reasonable and appropriate, we reviewed the purpose of each expenditure by examining purchasing requisitions and receipts.

Results in Brief

Based upon our review of the financial and operating practices of the Auxiliary, we concluded that:

- There was adequate segregation of duties. The responsibilities for the receipt and disbursement of cash and the accounting of revenues and expenses were properly segregated.
- Transactions were posted daily to the cash receipts and disbursements journals, monthly bank reconciliations were prepared, and monthly financial reports summarizing the receipt and expenditure journal entries were prepared.
- Revenues and expenses were accurately recorded in the general ledger.
- Cash receipts were recorded and deposited daily.
- All time sheets were properly approved and all payroll checks had the required signatures.

The Auxiliary had adequate supporting documents for most of the 90 expenditures made in April, May and June 2001, but did not document the college-related purpose of the expenses, as required. While most of the 90 expenditures were self-explanatory, the college-related purpose of eight expenditures was questionable. These eight included payments for food, dinner dances, and journal ads. In addition, we identified some weaknesses in the Auxiliary's internal control structure.

The Auxiliary used a signature stamp on 76 of the 85 checks issued during April, May, and June 2001. The use of this stamp was not authorized by the Board and was not warranted, since the names on the stamp were for persons who worked full time at the college. Furthermore, we were told that the stamp was supposed to be used only for purchases that were $2,500 or less. However, the stamp was used for 18 (67%) of 27 checks that exceeded $2,500.

The Auxiliary has contracts with vendors who operate the cafeteria, the ice-cream vending machines, the public phones, the photocopy machines, and the bookstore at BMCC. During April, May, and June 2001, all of the vendors, except for the operator of the ice-cream vending machines, made late commission payments to the Auxiliary. Further, for those vendors whose contracts had provisions for penalties for late payments, the Auxiliary assessed no penalties at all.

The Auxiliary also receives fees from facility rentals of BMCC space, custodial services, and media services to companies and organizations for conferences, social functions, and other events. In Fiscal Year 2001, the Auxiliary generated $581,982 in revenue, of which $336,589 (58%) came from facility rentals. Our review of rental documents generated in April, May, and June 2001 showed that the Auxiliary did not enter into license agreements for all facility rentals. The review also showed that when license agreements were prepared, they were not always signed by the organization renting the space or requesting services. In addition, the Auxiliary did not always collect full payment prior to the date of the events.

Lastly, at the end of Fiscal Year 2001, the Auxiliary had a fund balance of more than a million dollars—$1,067,152. In that same year, it earned $581,982 in revenue while expending $779,507. Although the Auxiliary did decrease the fund balance by $197,507 in Fiscal Year 2001, it is still carrying a large fund balance. The Auxiliary's mission is to raise funds to assist in developing the programs, resources, and facilities of BMCC to enable it to provide more extensive educational opportunities and services. By maintaining a large surplus of funds, the Auxiliary's efforts to achieve that mission are limited.

Recommendations

This audit makes eight recommendations, all of which are listed below. The Auxiliary Board of Directors should:

1. Require that all expenditures have adequate supporting documentation, including the educational or college-related purpose of the expenditure.

2. Discontinue the use of the signature stamp and require that all checks have handwritten signatures.

3. Enforce compliance with the terms and conditions that are stated in its contracts with vendors. The Auxiliary should make greater efforts to collect all revenues when they are due, and assess penalties when appropriate.

4. Assess and collect the penalty fees currently owed by the vendors operating the photocopy machines and bookstore.

5. Consider adding a penalty clause for late payments in its next renewal contract with the operator of the public phones.

6. Require that license agreements be prepared, properly signed and approved, and maintained for all facility rental events.

7. Require that all payments for facility rentals be collected prior to the event, whenever possible.

8. Reduce the Auxiliary's fund balance by identifying areas or programs that need additional resources.

BMCC Response

The matters covered in this report were discussed with officials from BMCC during and at the conclusion of this audit. A preliminary draft report was sent to the BMCC officials and was discussed at an exit conference on May 21, 2002. On May 30, 2002, we submitted a draft report to BMCC officials with a request for comments. We received a written response from BMCC officials on June 12, 2002.

Overall, BMCC agreed with the recommendations except for recommendation #8.

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INTRODUCTION

Background

The City University of New York (CUNY) consists of 10 senior colleges, six community colleges, one technical college, one graduate school, one law school, an accelerated medical program, and a medical school. The community colleges receive funding from the State and City and most of their revenues from tuition and fees. They also receive non-tax levy revenue from auxiliary enterprises such as food services, bookstores, and other operations at the colleges. The Borough of Manhattan Community College (BMCC) is one of the six community colleges of CUNY. Its Auxiliary Enterprises Corporation, Inc., (Auxiliary) manages its non-tax levy revenue.[1] The Auxiliary's day-to-day fiscal affairs are run by the College's fiscal office.

The Auxiliary receives non-tax levy revenue from commissions from: payphones, photocopy machines, ice-cream vending machines, a bookstore and a cafeteria. It also receives revenue from facility rentals and investment interest. For Fiscal Year 2001, the Auxiliary's financial statement reported revenue totaling $581,982 and expenses totaling $779,507, resulting in a deficit of $197,525. This deficit decreased the fund balance of $1,264,677 at the end of Fiscal Year 2000 to $1,067,152 by the end of Fiscal Year 2001.

The Auxiliary is governed by a 13-member Board of Directors consisting of: the President of the College or designee, who serves as the chair of the Board; four directors appointed by the President from among the administrators of the college; two faculty members appointed by the President from a panel of at least four teaching faculty elected by the College's Faculty Council; the President of the Student Government Association; and five students who are elected by the Student Senate.

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[1] There are five other non-tax levy organizations at BMCC: The BMCC Fund, Tribecca Performing Arts, Early Childhood, BMCC Student Association, and BMCC Development Corporation.

In 1983, CUNY amended its bylaws to set up Auxiliary Enterprise Boards such as the one established at BMCC. The Auxiliary Enterprise Boards provide oversight in the management and monitoring of the receipt and use of non-tax levy funds. Specifically, § 16.10 of CUNY's bylaws states that "the auxiliary enterprise board shall have responsibility for the oversight, supervision and review over college auxiliary enterprises." Further, the bylaws of the Auxiliary state that its "principal objectives and purposes" are:

> "To provide auxiliary enterprises to service the students, faculty, administrative staff, alumni, and others in the college community of Borough of Manhattan Community College.
>
> "Through the provision of auxiliary enterprise services and the use and allocation of auxiliary enterprise revenues, to assist in developing, improving and increasing the programs, resources and facilities of Borough of Manhattan Community College to enable it to provide more extensive educational opportunities and services to its students, faculty, administrative staff, alumni and others in the college community."

CUNY "Guidelines on the Use of Non-Tax Levy Funds" further state:

> "Non-tax levy funds may be used in support of educational, social and cultural events and programs of the colleges. Funds may be expended on events outside of the college that are of a significance to the college or University. Non-tax levy funds may be used for events that involve not-for-profit community, charitable, cultural, educational, or civic organizations. Funds may not be expended for partisan political purposes or in support of any candidate or political party in any campaign for public office."

Objectives

The objectives of this audit were to determine whether:

- Revenues and expenses were accurately recorded in the general ledger.
- The internal control structure over the processing of revenues and expenses is adequate.
- Expenses incurred by the Auxiliary were reasonable, appropriate, and in compliance with prescribed guidelines and bylaws.

Scope and Methodology

The scope of our audit was Fiscal Year 2001. To meet the audit objectives, we reviewed the Auxiliary's bylaws, procedural manual, books, records, and accompanying data. We also interviewed the Acting Director of Fiscal Services who is responsible for the Auxiliary's day-to-day operations.

To determine whether the revenue amounts were fairly stated, we reviewed the cash receipts for the months of April, May, and June 2001. We traced the amounts in the general ledger to the cash receipts journal, deposit slips, and bank statements. We also reviewed the facility rental invoices and agreements for April, May, and June 2001.

To determine whether the amounts reported for expenses were fairly stated, we reviewed the 90 cash disbursements for the months of April, May, and June 2001. We traced the recorded amounts from the general ledger to the cash disbursements journal, canceled checks, and purchase requisitions.

To determine whether timesheets were properly completed and whether the amount disbursed for payroll was properly accounted for, we reviewed the timesheets and payroll checks for April, May, and June 2001. We then reviewed copies of the issued payroll checks for appropriate signatures and traced the check amounts to the general ledger.

To determine whether internal controls over the processing of revenues and expenses were adequate, we reviewed the procedures relating to cash receipts, cash disbursements, and payroll found in the "Fiscal Services Department Procedural Manual for the BMCC Auxiliary Enterprises Corporation". We performed limited tests of transactions to determine whether responsibilities were adequately segregated, assets were safeguarded, and the authorization and approval requirements were met. In determining whether there was adequate segregation of duties, we reviewed the Auxiliary's procedures for recording accounting data and authorizing expenditures. To determine whether transactions were properly authorized, we reviewed signature cards and corporate resolutions. We also reviewed purchase requisitions, and copies of checks to make sure they had the proper authorization.

To determine whether the expenses incurred were in compliance with prescribed guidelines and bylaws, we reviewed: CUNY “Guidelines on the Use of Non-Tax Levy Funds,” § 16.10 of the CUNY Board of Trustees bylaws, applicable sections of the CUNY “Fiscal Handbook for the Control and Accountability of Student Activity Fees,” and the Auxiliary bylaws.

In determining whether expenses were reasonable and appropriate, we reviewed the purpose of each expenditure by examining purchasing requisitions and receipts.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller’s audit responsibilities as set forth in Chapter 5, § 93, of the New York City Charter.

BMCC Response

The matters covered in this report were discussed with officials from BMCC during and at the conclusion of this audit. A preliminary draft report was sent to the BMCC officials and was discussed at an exit conference on May 21, 2002. On May 30, 2002 we submitted a draft report to BMCC officials with a request for comments. We received a written response from BMCC officials on June 12, 2002.

Overall, BMCC agreed with the recommendations except for recommendation #8.

OFFICE OF THE COMPTROLLER
NEW YORK CITY

DATE FILED: June 21, 2002

FINDINGS AND RECOMMENDATIONS

Based upon our review of the financial and operating practices of the Auxiliary, we concluded that:

- There was adequate segregation of duties. The responsibilities for the receipt and disbursement of cash and the accounting of revenues and expenses were properly segregated.
- Transactions were posted daily to the cash receipts and disbursements journals, monthly bank reconciliations were prepared, and monthly financial reports summarizing the receipt and expenditure journal entries were prepared.
- Revenues and expenses were accurately recorded in the general ledger.
- Cash receipts were recorded and deposited daily.
- All time sheets were properly approved and all payroll checks had the required signatures.

The Auxiliary adequately documented most expenditures, but did not always indicate the college-related purpose of the expenses. For April, May, and June 2001, eight out of 90 expenditures had insufficient documentation to indicate the college-related purpose. In addition, we identified some weaknesses in the Auxiliary's internal control structure, namely, that the Auxiliary:

- Used a signature stamp inappropriately;
- Did not adequately enforce the terms of its franchise agreements relating to timely commission payments and assessing penalties;
- Did not always have signed license agreements when it rented-out its facilities; and
- Did not always receive full payment prior to the rental and use of BMCC facilities.

The following sections detail the deficiencies detected during our audit.

Lack of Documentation

During April, May, and June 2001, the Auxiliary made 90 expenditures, totaling $296,302, from its operating account. None of these expenditures contained documentation indicating the educational or college-related purpose of the expenditure, as required. Although the purpose of some types of expenditures was self-explanatory, the educational or college-related purpose of eight expenditures, totaling $22,660, was questionable. These eight purchases included payments for food, dinner dances, and journal ads. In addition, of the eight purchases, one, for $6,000, did not have documentation to support $5,000 of that amount.

CUNY guidelines require that "an explanation as to the educational purpose of the expenditure" should be included in each expenditure's supporting documentation. Furthermore, a March 17, 1997, memo from CUNY's Office of Internal Audit to all the colleges stated:

> "Several audits conducted by my Office in recent years identified control weaknesses over the expenditure of non-tax levy funds. These weaknesses included inadequate or missing supporting documentation such as vendor bills or invoices and insufficient documentation indicating the college related purpose of expenditures."

The following is a list of the expenditures made during April, May, and June 2001 that were questionable, that lacked the required documentation, and that did not appear to serve the educational or college-related purpose of the Auxiliary.

- $5,160 was spent on food for four functions and meetings attended by college officials;
- $10,250 was spent on two dinner dances. There was no attendance sheet to indicate who attended; and
- $7,250 was spent on two journal advertisements; $5,000 did not have any supporting documentation.

The lack of documentation indicating the educational or college-related purpose of the expenditures raised questions as to whether Auxiliary funds were used as intended for "educational opportunities and services" as required by the bylaws. The Auxiliary should comply with CUNY requirements and state the purpose of all of its expenditures so that a determination can be made as to whether funds are being spent in accordance with guidelines.

Recommendation

The Auxiliary Board of Directors should:

1. Require that all expenditures have adequate supporting documentation, including the educational or college-related purpose of the expenditure.

BMCC Response: "We agree that all expenditures should have adequate supporting documentation and that the purpose should be clearly indicated. . . . The documentation attached to all eight expenditures, discussed in the audit findings, were properly reviewed and approved by at least the chair of the AEC [Auxiliary Enterprise Corporation]. This approval indicates the purpose and description of each expenditure, was clear and in compliance with AEC by-laws, to the approver."

Auditor Comment: Although the documents were reviewed and approved, none of the expenditures contained documentation indicating their educational or college-related purpose as required by CUNY. In addition, even though the purpose of some types of expenditures was self-explanatory the educational or college-related purpose of eight expenditures was questionable.

Questionable Use of Signature Stamp

The Auxiliary used a signature stamp on 76 of the 85[2] checks issued during April, May and June 2001. The use of this stamp was not authorized by the Board and was not warranted since the names on the stamp were for persons who worked full time at the college. Furthermore, we were told that the stamp was used only for purchases that were $2,500 or less. However, we found that the stamp was used for 18 (67%) of 27 checks that exceeded $2,500.

The authorized signatories for checks issued from the Auxiliary's operating account are the Dean of Adult Continuing Education and three board members: the Chair, the Treasurer, and the Second Vice-Chair. The Auxiliary bylaws state, "Funds shall be withdrawn . . . only upon the written authorization and signature of both the Treasurer . . . and Chair." The "Fiscal Services Department Procedural Manual for the BMCC Auxiliary Enterprises Corporation" states that a stamp with the signatures of the Chair and Treasurer of the Board should be used for checks under $2,500.

All four of the Auxiliary signatories are employees of BMCC and work in the same building that contains the Auxiliary. In fact, the Chair and the Treasurer work on the same floor as the Auxiliary, making them accessible to sign checks. The signature stamp is located in a locked drawer within the Auxiliary's safe. The four individuals with access to the safe are the Acting Director of Fiscal Services, the Treasurer, the Bursar, and the Assistant Bursar. The Acting Director of Fiscal Services, the Treasurer, and the Bursar have authority to use the signature stamp on the Auxiliary checks.

We asked the Acting Director of Fiscal Services if the Auxiliary had obtained written approval from the Board of Directors to use the signature stamp. The Acting Director provided us with a copy of a memo, dated November 11, 1999, that he had written to the then Chair of the Auxiliary requesting approval to use a signature stamp. The person who was Chair at that time initialed his approval. However, there was no documentation indicating that the Board had approved the use of the signature stamp. Furthermore, the use of a signature stamp is in direct conflict with the requirements of Auxiliary bylaws.

The use of a signature stamp instead of actual signatures weakens internal controls and, when misused, can lead to misappropriation of funds. Comptroller's Directive #1 states that "because of the many steps involved in the procurement process and the sums of monies that are often expended, the review, authorization and inspection controls are the most important." Directive #1 further states that "ongoing monitoring reduces the risk of improper actions and

[2] The Auxiliary made 90 expenditures during April, May, and June 2001, 85 of them by check.

misappropriation." This monitoring is best done by individuals who review and sign disbursement documents, such as checks.

The "Fiscal Services Department Procedural Manual for the BMCC Auxiliary Enterprises Corporation" states, "all checks over $2,500 [should be] manually signed." However, of the 85 checks issued by the Auxiliary during April, May, and June 2001, 18 (67%) of the 27 checks that were for more than $2,500 were signature stamped, the highest amount being $6,148. This points out the type of misuse that can occur when using signature stamps. The Auxiliary Board of Directors should ensure that <u>all</u> checks have the required two handwritten signatures on them. This would ensure better controls over expenditures.

Recommendation

The Auxiliary Board of Directors should:

2. Discontinue the use of the signature stamp and require that all checks have handwritten signatures.

BMCC Response: "AEC agrees that the seventeen checks on the seven Purchase Requisitions for amounts over $2,500 should have been manually signed. It should be noted that all seven Purchase Requisition packages included the AEC Chair's signature authorizing these disbursements. . . . As previously indicated, all disbursements had the AEC Chair's written authorization and [were] in compliance with the Board approved Operating Budget. In the future, the practice of having all checks over $2,500 include manual signatures will be more closely adhered to."

Auditor Comment: BMCC agreed that the 17 checks for more than $2,500 should have been signed by hand instead of stamped, but did not address the recommendation that it discontinue the use of the signature stamp.

Inadequate Enforcement of Franchise Agreements

The Auxiliary has contracts with vendors who operate the cafeteria, the ice-cream vending machines, the public phones, the photocopy machines, and the bookstore at BMCC. The vendors of the cafeteria and the bookstore complied with the contract requirement to submit audited financial statements to the Auxiliary. This requirement was not present in the contracts of the other vendors.

During April, May, and June 2001, all of the vendors, except for the operator of the ice-cream vending machines, made late commission payments to the Auxiliary. Further, for those vendors whose contracts had provisions for penalties for late payments, the Auxiliary assessed no penalties at all. According to the contracts between the Auxiliary and the vendors, all payments to the Auxiliary must be made on a monthly basis. Most contracts also require that a penalty be assessed if commission payments are not received on time. However, the contract between the Auxiliary and the operator of the public phones does not specify a penalty fee for late payments, although it stipulates a payment due date.

Late Payments Made by Cafeteria Vendor

During the audit period, the Auxiliary had a contract with CulinArt Inc., to operate the cafeteria.[3] The contract between the Auxiliary and CulinArt Inc., required in part that:

- commissions be paid monthly, within 15 days of the end of the month;
- a late fee of 1.5 percent of the commission due be assessed;
- guaranteed monthly payment not to be less than $6,250 per month; and
- the contractor reimburse the Auxiliary for the supply of electricity and gas to food services area in the monthly payment.

All of the CulinArt commission payments that we reviewed were received after the due date stated in the contract. However, the Auxiliary did not assess penalties for the late payments.

Table I, below, shows the amounts received from CulinArt Inc., the date payments were due, the date payments were received, and the number of days payments were late.

TABLE I
CulinArt Inc. Commissions Received during April, May, and June 2001

Fiscal Year 2001	Commission Received	Commission Due Date	Date Commission Was Received	Number of Days Late
APRIL	$ 9,207	3/15/01	4/3/01	19
MAY	$ 8,567	4/15/01	5/21/01	36
JUNE	$ 8,779	5/15/01	5/24/01	9
TOTAL	$26,553			Average: 21 days late

Note: In addition to the above payments, the Auxiliary received from CulinArt, in April 2001, a payment of $24,084 as settlement for past commissions and utilities.

On average, during the months of April, May, and June 2001, the Auxiliary received commission payments from CulinArt 21 days after the date specified in the contract. If the Auxiliary had assessed penalties on the late payments, it would have received an additional $527 in revenues for the months of April, May, and June 2001.[4]

[3] As of January 2002, the Auxiliary has a contract with a new cafeteria vendor.

[4] Since commission payments for all three months were late, it is probable that other payments during Fiscal Year 2001 were also late.

The Auxiliary should have enforced the provisions of the contract with CulinArt Inc., more strictly. The Auxiliary should ensure that the current contractor remits payments on time, or pays penalties when payments are received after the due date.

Late Payments Made by Vendor of Photocopy Machines

The Auxiliary has a contract with Continental Copy Products, Ltd., to operate the photocopy machines at BMCC. The contract between the Auxiliary and Continental Copy Products required in part that:

- the commission be paid monthly and accompanied by a signed statement;
- the commission rate be 28 percent of the money collected at each meter reading;
- a statement of revenue be due by the 15th of the following month; and
- a late fee of $100 or 10 percent (whichever is greater) of money due be assessed.

All of the Continental Copy Products commission payments that we reviewed were received after the due date stated in the contract, yet the Auxiliary did not assess penalties for the late payments.

Table II, below, shows the amounts received from Continental Copy Products, the date payments were due, the date payments were received, and the number of days payments were late.

TABLE II
Continental Copy Products, Ltd. Commissions
Received during April, May, and June 2001

Fiscal Year 2001	Commission Received	Commission Due Date	Date Commission Was Received	Number of Days Late
APRIL	$ 1,194	3/15/01	4/2/01	18
MAY	$ 1,365	4/15/01	4/30/01	15
JUNE	$ 1,531	5/15/01	5/30/01	15
TOTAL	$4,090			Average: 16 Days Late

On average, during the months of April, May, and June 2001, the Auxiliary received commission payments from Continental Copy Products 16 days after the date specified in the contract. If the Auxiliary had assessed penalties on the late payments, it would have received an additional $409 in revenues for the months of April, May, and June 2001.[5]

[5] Since commission payments for all three months were late, it is probable that other payments made during Fiscal Year 2001 were also late.

The Auxiliary should enforce the provisions of the contract with Continental Copy Products Ltd. more strictly. The Auxiliary should require Continental Copy Products, Ltd. to remit payments on time and pay penalties for late payments when warranted.

Late Payments Made by Bookstore Vendor

The Auxiliary has a contract with Posman Collegiate Bookstore, Inc., to operate the bookstore at BMCC. The contract between the Auxiliary and Posman Collegiate Bookstore required in part:

- a minimum yearly guarantee of $100,000 payable in monthly payments of $8,333;
- payment to be made within 15 days of the month's end, accompanied by a sales report;
- a late payment fee of 1.5 percent per month of balance due to be assessed.

One of the three Posman Collegiate Bookstore commission payments that we reviewed was received after the contract due date. In April 2001, the Auxiliary received the bookstore's commission payment 20 days after the date specified in the contract, yet the Auxiliary did not assess any penalty for the late payment. If the Auxiliary had assessed penalties, it would have received an additional $125 in revenue for that month.

Recommendations

The Auxiliary should:

3. Enforce compliance with the terms and conditions that are stated in its contracts with vendors. The Auxiliary should make greater efforts to collect all revenues when they are due, and assess penalties when appropriate.

4. Assess and collect the penalty fees currently owed by the vendors operating the photocopy machines and bookstore.

5. Consider adding a penalty clause for late payments in its next renewal contract with the operator of the public phones.

BMCC Response: "AEC agrees with [these findings.] Contracted terms are monitored and follow up is taken when not adhered to. Payment schedules are reviewed, phone calls are made and letters sent to vendors when payments are past due. . . . the bookstore vendor has . . . been changed. . . . The bookstore payment plan is an annual settlement. AEC will consider adding a penalty clause for payments made after 30 – 45 days when the payphone . . . contracts are renewed. The extended time is needed because the commission is based on actual usage."

Auditor Comment: Since the bookstore vendor has been changed, the collection of penalties from the previous vendor may be difficult. This could have been avoided if the Auxiliary had assessed the penalties when late payments were made. In addition, the response did not address the collection of penalty fees from the photocopy machine vendor, although the contract specifies that penalty fees be assessed for late payments.

Not All Facility Rentals Have License Agreements

The Auxiliary receives fees from facility rentals of BMCC space, custodial services, and media services to companies and organizations for conferences, social functions, and other events. In Fiscal Year 2001, the Auxiliary generated $581,982 in revenue, of which $336,589 (58%) came from facility rentals. Our review of leasing documents generated in April, May, and June 2001 showed that the Auxiliary did not enter into license agreements for all facility rentals. The review also showed that when license agreements were prepared, they were not always signed by the organization renting the space or requesting services. In addition, the Auxiliary did not always collect full payment prior to the date of the events.

The Auxiliary did not have a signed license agreement on file for 36 of the 46 facility rental invoices. Though the Auxiliary did have the first page for 14 of the 36, indicating that an agreement had been prepared, a signed agreement was not on file. The Acting Director of Fiscal Services said that the Auxiliary does not require license agreements for government agencies or schools. However, the language in the procedures manual did not exclude the public sector; rather, it implied that license agreements are required for all facility rentals. Nevertheless, there were still 10 other non-governmental organizations without any facility rental agreements on file.

The fiscal services procedures manual states that an invoice is to be prepared for special events and conferences and mailed to the customer along with a license agreement. The license agreement should be signed and returned with a deposit or full payment.

The license agreements identify the terms and conditions of the agreement in detail and are signed by the Acting Director of Fiscal Services and the organization renting space or requesting services. Some terms and conditions include: the amount owed and the payment terms; restrictions on the use of the facility; establishing who is liable if there are damages to the premises; insurance terms and indemnification. Therefore, without written agreements, the Auxiliary is exposed to many types of risks and losses.

The license agreements also stipulate that final payments are due prior to the date of the event. We determined that in 11 instances, payments totaling $16,721 were made after the events took place. The Auxiliary Board of Directors should ensure that payments are made in full before an event takes place. When the Auxiliary allows an event to take place without prior payment, it risks not being paid for its services

Recommendations

The Auxiliary Board of Directors should:

6. Require that license agreements be prepared, properly signed and approved, and maintained for all facility rental events.

7. Require that all payments for facility rentals be collected prior to the event, whenever possible.

BMCC Response: "AEC agrees that license agreements should be prepared, properly signed, approved and maintained for all facility rental events when practicable. Currently, license agreements are prepared for all events with the exception of public entities. Public entities are self-insured and could not comply with the license agreement requiring an Insurance Certificate. Furthermore, some events were not finalized prior to the event to afford prepayment and a license agreement finalized. The current license agreement requires full payment ten days prior to the event."

Auditor Comment: Although BMCC states that license agreements are currently prepared for all events, it should, however, ensure that once prepared, these license agreements are properly signed, approved, and maintained for all facility rental events. In addition, although the license agreements require full payment prior to each event, BMCC did not ensure adherence to the payment schedule.

Surplus of Funds

At the end of Fiscal Year 2001, the Auxiliary had a fund balance of more than a million dollars—$1,067,152. In that same year, it earned $581,982 in revenue while expending $779,507. Although the Auxiliary did decrease the fund balance by $197,507, in Fiscal Year 2001, it is still carrying a large fund balance. We checked the financial statements for the previous two years to determine the amount of the fund balance. Table III below lists the revenue, expenses, change in fund balance, and end of year fund balance for Fiscal Years 1999, 2000, and 2001.

Table III
Analysis of Revenues and Expenditures for 1999 to 2001

Fiscal Year	Revenue	Expenses	Change in Fund Balance	End of Year Fund Balance
2001	$581,982	$779,507	($197,525)	$1,067,152
2000	$716,731	$354,182	$362,549	$1,264,677
1999	$586,917	$298,963	$287,954	$ 902,128

Table III shows that in Fiscal Years 1999 and 2000, the Auxiliary's expenditures were significantly less than its revenues, resulting in increases in the fund balance. It also shows that the Auxiliary had a fund balance that exceeded $900,000 for all three Fiscal Years.

The Auxiliary's mission is to raise funds to assist in developing the programs, resources and facilities of BMCC to enable it to provide more extensive educational opportunities and services. By maintaining a large surplus of funds, the Auxiliary's ability to achieve that mission is limited. If the Auxiliary's function were to manage funds as an endowment, maintaining a large balance would be appropriate, but that is not the case. Therefore, the Auxiliary should make a greater effort to reduce its surplus by identifying areas or programs at BMCC that need additional resources, and spend funds from its surplus for such projects.

Recommendation

The Auxiliary Board of Directors should:

8. Reduce the Auxiliary's fund balance by identifying areas or programs that need additional resources.

BMCC Response: "The AEC Board exercises their fiduciary responsibilities by adhering to an approved budget. This budget clearly reflects the needs and issues brought before the board. In previous years the excess of revenue over expenses has allowed the AEC to accumulate a Fund Balance that would allow it to meet future needs. In fiscal 2002, a non-operating expense to depreciation will be taken for approximately $193,000 to comply with the new GASB regulations that come into affect. This transaction will be a reduction to [the] Fund Balance. The AEC believes by practicing their fiduciary responsibilities, the AEC mission will be achieved."

Auditor Comment: Over the years, the Auxiliary has accumulated and maintained a large fund balance for "future needs." However, there does not appear to be a specific plan for expending this balance, such as capital improvements or projects. If large funds are maintained, there should be a specific purpose for which the funds will be used. Otherwise, these funds should be used to enhance educational opportunities and services, as defined in the Auxiliary's mission statement.

BMCC

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June 11, 2002

Mr. Roger D. Liwer
Assistant Comptroller for Audits
The City of New of New York
Office of the Comptroller
1 Center Street, Room 1100
New York N Y 10007-2341

Re: Response - Audit of the Borough of Manhattan Community College Auxiliary Enterprises Corporation

Dear Mr. Liwer:

The following is the BMCC Auxiliary Enterprises Inc (AEC) response to the above referenced audit findings:

Recommendation #1

The Auxiliary Board of Directors should:

1. Require that all expenditures have adequate supporting documentation, including the educational or college-related purpose of the expenditure.

AEC Response #1:

We agree that all expenditures should have adequate supporting documentation and that the purpose should be clearly indicated. Further, we agree that dinner dance attendees should be indicated.

The following should be noted about the eight expenditures noted in this report:

Purpose:

Ck.2087 - The American Friends of the Tel Aviv Museum – A dinner honoring Shirley & Miles Fiterman. Through there generosity, 15 BMCC students were awarded scholarships.

Ck. 2159 – NYC Firefighters 9th Annual Awards Dinner – An advertisement was placed in the Firefighter's Magazine for student recruitment and development purposes.

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Ck. 2110 – Belle Zeller Scholarship Trust Fund – CUNY scholarship awards dinner.

Ck. 2100 – Lower Manhattan Cultural Council – Community Organization honoring BMCC Fund Board member.

Ck. 2126 – Culinart - Food service for the Joseph Doctor Colloquium. This is an Academic Colloquium scheduled every year. It is the most prestigious event and venue for BMCC faculty.

Ck. 2129 – Culinart – Food service for P & B meetings – This is a forum for making decisions on appointments & promotions that affect the quality and caliber of the institution.

Ck. 2139 – Culinart – Food service for the Corporate & Cable Committee – The Corporate & Cable advisory board visited to give advice on the status of existing programs and the direction of future programs.

Ck. 2156 – Madison Square Garden - This was the pre-commencement breakfast sponsored by the College to honor special guests, award recipients, faculty & the platform participants. It was an integral part of the college activities.

The documentation attached to all eight expenditures, discussed in the audit findings, were properly reviewed and approved by at least the Chair of the AEC. This approval indicates the purpose and description of each expenditure, was clear and in compliance with AEC by-laws, to the approver.

Recommendation #2

The Auxiliary Board of Directors should:

2. Discontinue the use of the signature stamp and require that all checks have handwritten signatures.

AEC Response #2:

AEC agrees that the seventeen checks on the seven Purchase Requisitions for amounts over $2,500 should have been manually signed. It should be noted that all seven Purchase Requisition packages included the AEC Chair's signature authorizing these disbursements. The AEC by-laws state in Section 2 – Disposition:

"Funds shall be withdrawn from such bank account or accounts only upon written authorization and signatures of both the Treasurer of the Corporation and the Chair of the Corporation or upon written authorization and signature of such other person or persons as the Board of Directors shall designate by resolution."

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The AEC takes this to mean a written authorization may be included on the attached documentation not necessarily on the check. As previously indicated, all disbursements had the AEC Chair's written authorization and was in compliance with the Board approved Operating Budget..

In the future, the practice of having all checks over $2,500 include manual signatures will be more closely adhered to.

Recommendation #3

The Auxiliary Board of Directors should:

Enforce compliance with the terms and conditions that are stated in its contracts with vendors. The Auxiliary should make greater efforts to collect all revenues when they are due and assess penalties when appropriate.

Recommendation #4

The Auxiliary Board of Directors should:

Assess and collect the penalty fees currently owed by the vendors operating the photocopy machines and bookstore.

Recommendation #5

The Auxiliary Board of Directors should:

Consider adding a penalty clause for late payments in its next renewal contract with the operator of the public phones.

AEC Response #3,4 & 5:

AEC agrees with this finding. Contracted terms are monitored and follow up is taken when not adhered to. Payment schedules are reviewed, phone calls are made and letters sent to vendors when payments are past due.

The Audit Report makes reference to Culinart Food Service. This vendor no longer conducts business at BMCC. Their late payments were followed up with, in addition to phone calls, letters and late fees were assessed. In addition, the bookstore vendor has also been changed. The current food service vendor is adhering to the 15 day payment policy. The bookstore payment plan is an annual settlement.

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AEC will consider adding a penalty clause for payments made after 30 – 45 days when the payphone and copier contracts are renewed. The extended time is needed because the commission is based on actual usage.

Recommendation #6:

The Auxiliary Board of Directors should:

Require that license agreements be prepared, properly signed and approved and maintained for all facility rental events.

Recommendation #7:

The Auxiliary Board of Directors should:

Require that all payments for facility rentals be collected prior to the event, whenever possible.

AEC Response #6 & 7:

AEC agrees that license agreements should be prepared, properly signed, approved and maintained for all facility rental events when practicable. Currently, license agreements are prepared for all events with the exception of public entities.

Public entities are self-insured and could not comply with the license agreement requiring an Insurance Certificate. Furthermore, some events were not finalized prior to the event to afford prepayment and a license agreement finalized. The current license agreement requires full payment ten days prior to the event.

Finally, it should be noted that all fiscal 2001 facility rental invoices were paid in full.

Recommendation #8:

The Auxiliary Board of Directors should:

Reduce the Auxiliary's fund balance by identifying or programs that need additional resources.

AEC Response #8:

The AEC board exercises their fiduciary responsibilities by adhering to an approved budget. This budget clearly reflects the needs and issues brought before the board. In previous years the excess of revenue over expenses has allowed the AEC to accumulate a Fund Balance that would allow it to meet future needs.

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In fiscal 2002, a non-operating expense to depreciation will be taken for approximately $193,000 to comply with the new GASB regulations that come into affect. This transaction will be a reduction to Fund Balance.

The AEC believes by practicing their fiduciary responsibilities, the AEC mission will be achieved.

If you have any questions or need additional information, please call me at 212-220-8061.

Sincerely,

Larry M Nadel CPA
Acting Director of Fiscal Services

Cc: G. Scott Anderson
Louis Chiaccheri