

Medgar Evers College/CUNY
Office of Administration & Finance

RELATED ENTITIES POLICIES & PROCEDURES MANUAL



COURAGE • STRENGTH • FORTITUDE

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Content:

A/ Sub-ledgers close

B/ Recurring & adjustment closing entries

C/ Review of system generated comparative trial balance

D/ Reporting to parent company

E/ What can go wrong

F/ Controls

G/ Financial statement policy & procedures to be implemented

Overview: Medgar Evers College Comptroller's Office performs monthly and year-end closing for Medgar Evers College Auxiliary Enterprises Inc., Medgar Evers College Faculty Association Inc., Medgar Evers College Educational Foundation, Inc., Ella Baker/Charles Romain Child Development of Medgar Evers College, Adult and Continuing Education, Gifts & Grants, Scholarships' and Tuition and fees.

Budget. The Budget Office in concurrence with the Business Office is responsible for establishing an annual budget for the following entities:

Medgar Evers College Auxiliary Enterprises Corporation

The Budget Office, which provides orderly execution of the needs related to the account, serves as one of the control mechanisms to compare planned receipts and disbursements with the actual fiscal activities

Cash Accounts. There are non-budgeted "cash control" accounts. In those specific cases the Controller should ensure that sufficient cash is always in the account to pay for anticipated expenditures.

Compliance. The VP is responsible for understanding and ensuring compliance with University, Federal, State and City policies and procedures. Guidance can be obtained from various administrative offices that share in these responsibilities including Purchasing, Human Resources, Financial Management Services, Facilities and the University Controller Office.

Internal Controls: Include procedures for ensuring reliable financial information, establishing accountability and safeguarding of assets, determining that transactions are proper for the account and in compliance with College policies, statutes, and regulations.

Reconciliation: Of an account, means that the monthly operating reports are being reviewed monthly to ensure that the expenses posted to the account are expenditures that were approved by the Fiscal Officer, or their delegate, and that these expenditures are allowable. In addition, that the revenues are

reviewed to verify that all revenues that should have been posted to the account during the period are accounted for with the account activity.

Signature Authority: Refers to the signature that is required to approve a financial transaction and for that transaction to be posted to a system.

Approvals. When approving documents, the Controller is responsible for verifying or having processes in place that verify the following:

1. Charges to the account correctly represent materials received or services rendered;
2. Charges represent activities which are established, and comply with the budget plan that is established for the account;
3. Funds are available in the account to cover authorized charges
4. The transactions in the account comply with all relevant internal or external regulations, policies and procedures.
5. The transaction is accurate, timely and completely recorded.

The Business Office uses CUNYFirst/CUNYBuy for all the Related Entities reconciliations and procurements except the Medgar Evers College Educational Foundation. Medgar Evers College Educational Foundation uses Financial Edge as its accounting software. Entries recorded in the subsidiary ledgers are automatically updated to the general ledger at the time of posting.

The College Accountant Assistant 1 – is responsible for recording all monthly cash transactions received from the Bursar's Office for all related entities and College Accountant Assistant 2 – are responsible for recording Tuition and Fees monthly cash transactions.

On the sixth business day of the month, the College Accountant II closes the subsidiary ledgers to prevent any further posting to those ledgers. The College Accountant II is responsible for recording, reviewing, approving and posting all closing entries (e.g. standard journal entries, recurring and non-recurring entries) to the general ledger by the 8th business day after the end of the month. After recording all closing entries, the College Accountant II reviews the preliminary system-generated trial balance and makes any adjusting journal entries. All journal entries are sequentially filed, by batch number order, along with the proper supporting documentation.

After making all necessary adjusting entries, a new Trial Balance is generated and reviews it for completeness. The College Accountant II prepares the trail balance and financial statements and forwards it to the Controller for review. The trial balance depicts the entities' income statement by department and compares the YTD expense to Budget and prior year amounts, all variances are explained. After reviewing and updating the comments in the management summary, the Controller communicates any adjustments, if necessary, to the College Accountant II. The updated management summary is then forwarded to the related entities Board. Once all entries are finalized, the College Accountant II prepared monthly reports to all departments within the related entities.

THE CLOSING PROCESS:

MEC's Related Entities and Tuition and Fees closing process are broken down into four (4) steps:

- a) Closing of the subsidiary ledgers
- b) Recording recurring and adjusting closing entries
- c) Review system generated comparative trial balance, and
- d) Reporting to Related Entities Board
- e) Reporting to CUNYFirst.

A. CLOSE SUBSIDIARY LEDGERS:

The following subsidiary ledgers are closed on the third business day (D+3) after the end of the month. Entries recorded in the subsidiary ledgers are automatically updated to the general ledger at the time of posting.

- I. Accounts Receivable subsidiary ledger, and
- II. Accounts payable subsidiary ledger

Accounts Receivable Subsidiary Ledger

MEC's Related Entities, Tuition, and Fees account receivable are derived from transactions resulting from students and third-party customers. On a monthly basis, these charges are invoiced to the various customers resulting in a receivable.

The College Accountant:

- Reconcile the Aging Receivables and pledges with the Development Office
- Prints a detailed Aged Account Receivable Report and reconciles to the General Ledger.
- Makes all necessary adjusting journal entries.

Accounts Payable Subsidiary Ledger

The College Accountant:

- Closes this ledger to prevent any further posting.
- Reviews the Accounts Payable accounts for any un-posted checks, wire transfers, and ACH

B. RECORD CLOSING AND ADJUSTING ENTRIES

The College Accountant records the following types of closing entries monthly by the 8th business day after the end of the month.

- I. Monthly standard/recurring entries
- II. Recurring adjusting journal entries
- III. Payroll expense journal entries
- IV. Eliminating entry for MEC and Related entities.
- V. Tax expense/benefits accruals and final tax entry received from the tax department at year-end.

II. Monthly standard/recurring entries

These entries are set up at the beginning of the year based on the year opening balances; they are adjusted and recorded monthly based on the changes in the account. The College Accountant reviews and records the following entries.

- The amortization expense of capitalized acquisition cost on investment in subsidiaries.
- The depreciation expense of fixed assets to the general ledger. The monthly depreciation is automatically calculated in the fixed assets module.
- The amortization of prepaid bank fees.
- The accrual of monthly management fee income from affiliates based on the terms of the yearly contract (flat fee). Billing and payment are made quarterly

III. Recurring Adjusting Journal Entries

Accruals:

These entries are part of the standard monthly entries and are set up based on budget. These expenses are accrued monthly because they represent amounts due for services and benefits that the Entities have received but are unpaid, or amount prepaid (expenses that are invoiced quarterly or yearly). The accountant reviews the following entries for completeness before posting.

- Audit expense
- Professional fees

Prepaid Expenses:

- Amortize prepaid insurance expenses

IV. Payroll and related payroll tax journal entries

This journal entry is prepared and received from the Research Foundation and payroll departments. The Accountant:

- Records Bi-weekly and Quarterly payroll charges and payroll expense tax expenses
- Reconcile monthly payroll charges to the payroll cash disbursement.

VI. Record Tax entries

The Accountant:

- Records the final income tax entry from the tax department on quarterly and/or yearly basis.

C. REVIEW OF SYSTEM GENERATED COMPARATIVE TRIAL BALANCE.

CUNYFirst and Financial Edge generate Trial Balance that shows the Financial Statement on a comparative basis.

The Accountant on a monthly basis:

- Print & review Financial Statements (P&L, B/S and P&L by department) for completeness.
- Records any additional adjusting entries after review.
- Reconciles accounts receivable aging report to general ledger and the Development Office
- For the Development Office will reconcile all credit cards transactions to ensure they are posted to the General Ledger.
- Reconciles all banks accounts
- Prepares and sends a schedule of expatriate prepaid salary contractual expenses to the payroll department to be grossed-up and/or included in the expatriate's W2.

The Controller on a monthly basis:

- Reviews Trial Balances
- Prepares Financial Statements
- Review Budget Reports

The Related Entities Board Treasurer on a monthly basis

- Updates Budget reports

The Related Entities Board Treasurer on a Quarterly

- Prepares Financial Statements

Procedures for the preparation of monthly statements

- Print Financial Statements
- Print operating expenses by department
- Prepare quarterly and year-end reports

E. WHAT CAN GO WRONG

General environment:

- The Financial Statements at the entity level are not in line with internal and external standards and principles.
- The internal, legal and regulatory rules relating to the conversion and justification of the accounting data are not respected.
- The organization of the process does not allow for a timely closing.
- The risks associated with non-segregation of duties are not well covered.

Accounting Flows and Data:

- Unauthorized access to the management of accounting periods
- Lack of control or tracking of the entries on intermediate and final closures
- Cut of rules are not complied with
- Non-documentation and unauthorized accounting entries
- Processing of duplicate entries
- Entries are not exhaustive
- Wrong journal entries reversed
- Wrong classification
- Lack of integrity in the flow of accounting data.

Financial Statement Quality:

- Financial Statement does not accurately reflects the activity of the College
- Assets do not exist and/or not valued properly
- Provisions, accrual, capitalized expenses and other regularization balances are not properly valued, authorized or documented.
- Liabilities are unrecorded
- Transactions are not adequately classified in the Balance Sheet or income statement.
- Off balance sheet elements are not identified or not properly valued.

Reporting:

- Reporting and accounting data do not match

F. CONTROLS

The following controls are in place to prevent or detect errors and to determine the effectiveness and completeness of the financial statement close process.

CONTROLS ALREADY IN PLACE

General Environment:

- The Business Office is informed on a regularly of any new standards and rules, which impact the statutory Financial Statements.
- The Business Office is informed on a regular basis of any new standards and rules, which have an impact on the financial statements. (US GAAP)
- The charts of accounts used are in line with the statutory and Group needs. Any changes must be pre-authorized and a review of passed alternations is carried out.
- An information process exists on the archiving procedures, which are to be observed by all parties involved.
- A closing reporting calendar is defined and communicated in advance.

Accounting Flows & Data:

- The user profiles and password management qllimit the access to the accounting period management.
- Carried forward balances from one period to the other are controlled.
- The method of reversing entries-such as period end accrual is defined and automated.
- A standard checklist manual closing entry exists, and is reviewed on a regular basis by the Business Office.
- The Controller and SVP review the Financial Statements for any inconsistencies between budget and YTD expenses to determine the accuracy of the Financial Statements or whether the budget figures need to be revised when preparing the revised budget.
- Personnel who are familiar with the accounts and the College's business perform the closing procedures.
- The subsidiary ledgers automatically post to the General Ledger.
- CUNYFirst and Financial Edge assign sequential numbers to each journal entry and do not allow duplicate journal entry numbers.
- CUNYFirst and Financial Edge do not allow one sided entry only double-sided entries.
- Bank reconciliations are done at month end for each bank account.
- Confirmation request on inter-entity balance are performed.
- Development Office must provide notification of all in-coming contributions to the Business Office
- Business Office will use data to reconcile in-coming contributions with bank statement.

Reporting:

- The Financial Statement are generated automatically from the accounting system
- The Business Office will ensure reports submitted to CUNY are reconciled in CUNYFirst.
- The Business Office will share Financial Statement with the Development Office.

PROCEDURES THAT SHOULD BE IN PLACED

General Environment:

- An internal monthly closing calendar identifying the cut-off dates for the transmission of documents, accruals and accounting input deadlines.
- Documentation of the key stages of the processes to be used by employees who are new to the process.
- Post-closing meetings to review the close and list the points for improvements for the next closing.

Accounting Flows & Data:

Cash bank accounts:

- Bank reconciliation should be reviewed and signed by the Controller or the Administration and Finance senior administrator (SVP/VP/or AVP).
- Bank reconciliation should show the origination dates and description of each reconciling item.

Accounts Receivable:

- Aged accounts receivable report should be reconciled to the General Ledger by someone other than the person responsible for the Ledger

Other Receivable

- Prepare schedule of other receivable accounts and reconcile to General Ledger

Prepaid Expenses:

- Prepare a prepaid expense amortization schedule, detailing the amount to amortize monthly for each prepaid expense.
- Reconcile prepaid expenses schedule to General Ledger
- The controller should review schedule.

Financial Assets-Investments:

- Prepare a detailed schedule of all securities on hand at period-end by location held.
- Reconcile monthly investment pool statements to the General Ledger.

Fixed Assets

- Fixed assets and related allowances for depreciation schedule should be reconciled periodically to the General Ledger.
- Write-off obsolete assets – computer leases
- Review depreciation schedule for completeness and reasonableness

Intangible Assets:

- Prepare a schedule list of Intangible Assets and amount to amortize each year.
- Update amortization schedule of capitalized cost to reflect amount in General Ledger
- The controller should review schedules.

Accounts Payable

- Accounts Payable Report should be reconciled to the General Ledger and differences should be investigated.

Accrued Expenses

- Reconciliation should be prepared for all monthly accruals
- Maintain a list of invoices accrued but unpaid at year-end.

Contingent Liabilities and Commitments

- At year-end, prepare a schedule of any outstanding litigation and possible losses.

TEST OF CONTROLS OVER THE FINANCIAL STATEMENT CLOSING PROCESS

- Select at random four (4) financial entries received from the Bursar's Office and ensure that they are posted and that supporting documentation is attached.
- Through observation and inquiry checklist of standard entries and verify that all entries are recorded.
- Select three-(3) bank reconciliation for each Entity and ensure that they are prepared timely and all reconciling items investigated are resolved.
- Through observation and inquiry, ensure that monthly elimination is performed.
- Through observation and inquiry, ensure that the controller reviews the Financial Statement.
- Through observation and inquire ensure that monthly management summary and monthly and quarterly reports are uploaded into CUNYFirst.
- Through observation and inquiry, ensure that monthly reports are send to the departments on their balances.
- Select three (3) payroll journal entries and ensure that the monthly payroll expense is reconciled to the monthly payroll cash disbursement.

G. FINANCIAL STATEMENT CLOSING PROCESS PROCEDURES

POLICY: The Business Office to assure an accurate representation of the College and Related Entities' Financial Statement and to provide all necessary documentations and work papers for our independent auditors will perform a timely and comprehensive closing of all General Ledger accounts.

OBJECTIVE: To provide a general overview of all closing processes monthly and at year-end.

SCOPE: These procedures apply to all General Ledger accounts. All Financial Statements accounts are reviewed and then closed.

RESPONSIBILITIES:

The Accountants & Controller are responsible for creating and reviewing all period-end activities to ensure the Financial Statements accurately reflect the results of the College's activities.

Business Office is responsible for gathering all documentations required to complete the monthly and year- end closing and recording all adjustments to the General Ledger. All Journal entries are prepared and recorded in the General Ledger based on adequate supporting documentation.

DEFINITION:

"Review" refers to the procedures involved in examining the Financial Statement balances at any given period to ascertain their accuracy.

"Closing" the process is advancing from one month or period to the next or from one year to the next.

"Period-end" refers to month-end or year-end.

PROCEDURE:

BALANCE SHEET: ASSETS

Assets should be fairly stated, generally at realizable value (amount). Work papers should show the basis and acquisition date, and how amounts are calculated.

Cash Bank Accounts –

- Prepare bank reconciliations for period-end (monthly and year-end) balances per bank statement to the balance per books for each bank account.
- Show the origination dates and description of each reconciling item.
- Prepare all journal entries and adjust the general ledger, if necessary.

Bank reconciliations are extremely important at month and year-end close to ensure the accuracy of the financial statement.

Investments –

- Prepare a detailed schedule of all securities on hand monthly.
- It is critical to use complete names and show the face amount and date of acquisition.
- Determine cost and market values and calculate unrealized gain/loss.
- Calculate accrued interest

Account Receivable –

- Close Subsidiary Ledger, print a detailed aged accounts receivable report, and reconcile to the general ledger.
- Calculate possible allowance for uncollectible accounts
- Obtain approval from the Controller before adjusting the prior allowance in the general ledger to the calculated amount.
- Confirm account balances with affiliates, monthly and at year –end.

Retain a complete copy of the detailed accounts receivable, along with any reconciling adjustments.

Other Receivable –

- Prepare schedule of other receivable accounts and reconcile to General Ledger
- Comment on collectability, if material

Prepaid Expenses –

- Prepare a prepaid expense amortization schedule, detailing the amount to be amortized monthly for each prepaid expense.
- Prepare journal entry for amortization of all prepaid expenses to be posted to the general ledger monthly.
- Reconcile prepaid expenses schedule to the general ledger.

Capital Assets –

Acquisitions:

- Post new Fixed Assets entries to CUNYFirst
- Print schedule of assets and related allowances for depreciation
- Reconcile allowance additions to total depreciation expense.

Depreciation:

- Run monthly depreciation in Fixed Assets Module
- Print report and review for accuracy
- Post depreciation entry to the general ledger

Disposals:

- Determine method of disposal (e.g. disposal with or without proceeds)
- Enter disposal information in the CUNYFirst, and automatically create a journal entry
- Post entry to the General Ledger

- Post entry to the Fixed Assets Module

Intangible Assets –

- Calculate amortization expense
- Prepare schedule listing of capitalized cost and amount to be amortized each year

Other Assets (including prepaid expenses & deposits) –

- Prepare schedule detailing prepaid expenses and the amount to be amortized monthly.
- Maintain copy of initial deposits contracts with the company

BALANCE SHEET: LIABILITIES & NET POSITION

Liabilities are shown as the amount to be paid in subsequent periods. If in doubt, record the liability.

Accounts payable –

- Close Subsidiary Ledger and print a detailed accounts payable report and reconcile to the General Ledger.
- Determine that all items paid through year-end are not shown on the accounts payable list.
- Compare all month-end vendor statement to balances per account payable and investigate any differences.
- Retain a complete copy of the Accounts Payable detail, along with reconciling adjustments.

For year-end close, the aged accounts payable report is printed and reconciled 2 to 4 weeks after year-end to ensure that all vendor invoices related to services and merchandise purchased have been received and recorded.

Accrued Expenses –

- Review accruals for audit fees, professional fees, interest expense, interest on short-term borrowing and lending, long-term debt.
- Adjust accruals for any over or under accruals.
- Accrue for significant unrecorded liabilities, such as work started prior to year-end, where the invoices have not been received.
- Most importantly, determine and record the cost of audit, tax and legal services through year-end.
- Maintain of list of invoices accrued but not paid at year-end.

Contingent Liabilities and Commitments –

- Prepare a schedule of any outstanding litigation and possible losses.

STATEMENTS OF REVENUE AND EXPENSES

Expenses –

- Each expense total should be compared to prior year and budget, and any unusual variances should be reviewed and explained.
- Expense items that are directly related to assets or liability accounts should be reconciled in conjunction with the related balance sheet account.
- All items of the income and expenses should be closed at year-end so that they do not carry over to the next fiscal year.
- Closing entry is prepared after all required year-end adjustments have been made to the general ledger.
- No entries for the next fiscal year should be posted into the general ledger until the prior year closing entry has been posted.

Depreciation Expense –

- Review total depreciation expense to change in accumulation depreciation for that period.

Payroll expense –

- Prepare a schedule of all payrolls and employer taxes and reconcile to payroll reports from payroll department.
- Prepare a schedule of annual payroll for each officer of the Company for the auditors.

Interest Expense/Income –

- Prepare a schedule of interest expense/income by source.
- Reconcile amounts to short-term borrowings and long-term debt
- Reconcile & confirm pooling interest amount with affiliates.

ADEQUATE DUCMENTATION OF JOURNAL ENTRIES

- Journal entries should be prepared only when there is adequate supporting documentation and filed in the journal entry folder for that College.
- The Controller or responsible officer who is not involved in the origination of the entries should authorize adjusting journal entries.