



New York City Department of Education

John F. Kennedy High School: Management of General School Funds

2009-N-2



Thomas P. DiNapoli

Table of Contents

	Page
Authority Letter	5
Executive Summary	7
Introduction.....	9
Background	9
Audit Scope and Methodology	9
Authority.....	10
Reporting Requirements	10
Contributors to the Report	10
Audit Findings and Recommendations	11
General School Fund Expenditures	11
Recommendations	11
General School Fund Treasurer Financial Management Practices.....	12
Recommendations	13
School Store Operations	13
Recommendation.....	14
General School Fund Bank Account Authorization	14
Recommendation.....	14
Agency Comments	15

State of New York Office of the State Comptroller

Division of State Government Accountability

June 24, 2010

Joel I. Klein
Chancellor
Department of Education
52 Chambers Street
New York, NY 10007

Dear Chancellor Klein:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing 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 of the New York City Department of Education, John F. Kennedy High School: Management of General School Funds. 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 III, Section 33, of the General Municipal 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*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

Audit Objectives

We audited financial management practices related to general school funds for the John F. Kennedy High School (Kennedy) to determine if such funds were managed and administered in accordance with Department of Education (DoE) guidelines and if DoE had provided oversight of these funds.

Audit Results - Summary

Most public high schools in New York City maintain one or more general school funds (GSF) and related bank accounts to handle student-related funds. These accounts are used to deposit and account for funds raised for senior year activities, such as the senior prom and senior trip; the yearbook; and funds raised by students from bake sales, candy sales, and other fundraising activities. In addition, funds generated by sales from the Kennedy Campus school store are handled through Kennedy's GSF accounts.

Based on the major problems we identified at Kennedy, we conclude that the control environment is poor and it is likely that GSF monies have been stolen. The Kennedy principal did not establish basic accountability for student funds. Basic DoE GSF guidelines have been ignored and funds cannot be accounted for by Kennedy officials. DoE officials have been kept informed of these matters throughout the audit and have notified the Special Commissioner of Investigation for the New York City School District of our findings. The Special Commissioner of Investigation has started an investigation into these matters.

We found mismanagement of GSF funds at Kennedy, serious deficiencies in the recordkeeping, unaccounted for funds, and large debts to outside vendors. From our testing of 30 checks totaling about \$58,180, we identified that \$7,827 in GSF funds were used to pay for items that were not student-related, \$7,114 of which represented payments for four separate teacher retirement parties. We also found that Kennedy owed one vendor \$60,599 for expenses incurred for the purchase of yearbooks, caps, gowns, and championship rings in the 2004-05, 2005-06, and 2006-07 academic years. We also found that Kennedy officials did not maintain basic accounting records (i.e., a cash journal) to document GSF activity and that DoE-required approval processes were routinely circumvented and ignored. In still other instances, we noted that the treasurer bounced 15 checks totaling \$28,825 because she was unaware that there were insufficient funds in the GSF account.

Further, we found that there was no accountability over the financial management of the Kennedy Campus school store. For example, no inventory records were kept for items purchased or sold in the school store. In addition, cash register tapes were not used when ringing up sales; therefore, there were no records to indicate the total daily cash intake before the proceeds were taken to the treasurer for deposit.

Consequently, there is no complete and accurate record of the amount of revenues and other funds collected from and earned by the students at Kennedy High School. By failing to maintain basic accounting records pertaining to the GSF account and by not following prescribed procedures, the officials at Kennedy have not fulfilled their fiduciary responsibilities to properly account for GSF and to ensure that these funds are spent solely for the benefit of the students. We also determined that the DoE did not provide adequate oversight and training and Kennedy officials did not exercise due diligence and care over their GSF account.

Our report contains eight recommendations for improving controls over GSF accounts. School officials agreed with our recommendations and have taken steps to implement the changes.

This report, dated June 24, 2010, is available on our website at: <http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or

Office of the State Comptroller

Division of State Government Accountability

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Introduction

Background

The New York City Department of Education's (DoE) John F. Kennedy Educational Campus (Kennedy Campus) is located in the Bronx and consists of six separate high schools, one of which is the John F. Kennedy High School (Kennedy). Each high school has its own principal, teachers, and administrative staff. Kennedy, with 1,418 students, is the largest of the six schools. Kennedy officials also operate a school store that serves the entire campus.

During our audit period, Kennedy maintained a general school fund bank account (GSF) in which to deposit monies collected for extracurricular and co-curricular activities, such as the senior trip, senior prom, and athletic events. Kennedy also operates a school store for the benefit of the Kennedy Campus. This store is managed by Kennedy's treasurer and operated by a school aide on a full-time basis. Based on available records, we estimate that, during the audit period, Kennedy disbursed a total of \$347,372 from its GSF account. Due to inadequate records, we were unable to determine how much was collected and how much should have been collected.

Accountability, fiscal integrity, and proper accounting procedures for the receipt, deposit, disbursement, and recording of funds raised by a school should be practiced by all school officials who handle GSF accounts. DoE's Standard Operating Procedures (Procedures) provide rules and guidelines for, among other things, the handling of GSF accounts.

Audit Scope and Methodology

The objective of our audit was to determine if Kennedy officials managed and administered its GSF account in accordance with the New York City Department of Education's (DoE) Standard Operating Procedures (Procedures) and if GSF funds were properly accounted for and spent for the benefit of the students. We also sought to evaluate DoE oversight of these funds at Kennedy. Our audit period was from July 1, 2007 through June 24, 2009.

To accomplish our objectives, we reviewed DoE's Procedures. We also interviewed DoE and Kennedy officials. In our review of the campus' financial management practices, we sought to determine whether the school maintained a cash journal and whether GSF funds were properly accounted for. In our review of the school's GSF bank account, we sought to determine whether this account was registered with the DoE's Banking Unit, whether the account was reconciled monthly, and whether account balances were reported annually to the DoE. In addition, we selected a judgmental sample of 30 checks totaling \$58,180 from the school's GSF bank account to determine whether all transactions were properly supported and authorized. We selected our sample based on high dollar purchases, purchases that were

of a questionable nature or had a purpose not readily identifiable as related to extracurricular and co-curricular student activities. In our review of the school store, we sought to determine whether records were accurate and that all transactions were properly authorized and supported.

We conducted our performance audit in accordance with generally accepted government auditing standards. These 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

Authority

This audit was performed in accordance with the State Comptroller's authority under Article V, Section 1 of the State Constitution, and Article III, Section 33 of the General Municipal Law.

**Reporting
Requirements**

We provided a copy of this report, in draft, to DoE officials for their review and formal comments. We have considered these comments in preparing this report. DoE officials agreed with our recommendations and provided details regarding the actions they are taking to address those recommendations. A copy of DoE's response is attached to this report.

Within 90 days after the final release of this report, we request that the Chancellor of the New York City Department of Education report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

**Contributors
to the Report**

Major contributors to this report include Steve Sossei, Kenrick Sifontes, Stephen Lynch, Alina Mattie, Elijah Kim, Katrina Lau, and Hector Arismendi.

Audit Findings and Recommendations

Based on the significant control weaknesses identified by this audit, we conclude that the control environment is poor and it is likely that student funds have been stolen or misused. Kennedy's principal did not ensure basic accountability for student funds and allowed funds to be misused. DoE officials have notified the Special Commissioner of Investigation for the New York City School District of our findings and an investigation into these has been started.

General School Fund Expenditures

According to DoE's Procedures, expenditures made from GSF accounts must be directly related to student extracurricular activities, co-curricular activities, or for the direct benefit of students. All expenditures must be pre-approved in writing by the school principal. The Procedures also provide that checks should be written only when supported by vendor invoices indicating the goods/services purchased and the amount owed to the vendor. Also, evidence should exist that the purchaser received the goods/services.

From July 2007 through January 2009, 406 checks totaling \$347,372 were issued from Kennedy's GSF account. To test whether Kennedy officials complied with the Procedures, we selected a judgmental sample of 30 checks totaling \$58,180 from Kennedy's GSF bank account. Our sample selection was designed to include high-dollar purchases, as well as items that were of a questionable nature or had a purpose that was not readily identifiable as related to student activities. We identified five expenditures totaling \$7,827 that were not student-related, including four payments totaling \$7,114, for teacher retirement parties. We also found that \$713 was spent on classroom keys for teachers. Kennedy officials told us that they reimbursed the GSF account for \$7,114; however, they were unable to provide any evidence to indicate that this had occurred. We also found written pre-approvals were missing for all of the 30 sampled purchases, and invoices or receipts were missing for 12 of the 30 purchases totaling \$17,859. Further, there was no evidence to support that over \$22,000 in goods purchased with GSF funds were ever received at Kennedy.

Recommendations

1. Reimburse the GSF account for the cost of the retirement parties and classroom keys.
2. Perform an independent review of all remaining expenditures from the GSF account for the audit scope period to identify any additional inappropriate use of GSF funds and, if items are identified, arrange for reimbursement of the GSF account from the appropriate source.
3. Review the activities related to GSF accounts to ensure that:

- all school purchases are directly related to students' extracurricular and co-curricular activities;
- all purchases are pre-approved by the principal; and
- school officials document the receipt of goods and services before payment.

General School Fund Treasurer Financial Management Practices

School principals are ultimately responsible for the collection, distribution, and accounting for all GSF accounts. However, according to the Procedures, each school principal should assign a member of the school's staff the duty of school treasurer (treasurer) to perform many of the administrative tasks related to the school's GSF account. The treasurer should receive GSF money, issue receipts, prepare checks for signatures, and maintain a cash journal of funds received and expenditures made. The treasurer should also prepare monthly bank reconciliations and submit them to the principal for review and approval. The principal must make certain that all receipts and expenditures are monitored on a regular basis and ensure that bills are paid timely.

At Kennedy, the principal appointed a treasurer to administer the school's GSF account. However, the treasurer did not maintain proper accounting records (i.e., a formal cash journal) and did not perform monthly bank reconciliations of the GSF account, as required. Instead, we found that the treasurer simply maintained a notebook in which she occasionally recorded deposits and cash receipts. Cash journals provide accountability over GSF monies collected and disbursed. Accurate and timely bank reconciliations can uncover errors and irregularities more quickly, thus allowing the principal or the treasurer to investigate and take corrective action.

Bank records indicate that, between July 2007 through January 2009, 406 checks totaling \$347,372 were disbursed from Kennedy's GSF account, including 15 checks totaling \$28,825 which bounced due to insufficient funds. Because of the poor recordkeeping at Kennedy, we could not determine how much money was actually collected from students and should have been deposited in the account.

Based on the limited records kept by Kennedy officials, we conclude that a significant amount of student funds is likely missing. The treasurer collected dues from Kennedy's senior students to pay for their yearbook, graduation cap, gown, ceremony, and prom; and the senior trip. School officials informed us that students make graduation-related payments in installments throughout the academic year; thus, money should be in the account to pay for the purchases. According to the Procedures, these funds should be used solely for those purposes. However, we found that as of January 2009,

Kennedy still owed one vendor \$60,599 for senior class expenses incurred in the purchase of yearbooks, caps, gowns, and championship rings from the three previous academic years (2004-05, 2005-06, and 2006-07). At the same time, Kennedy had already accumulated unpaid invoices totaling \$15,987 for current year graduation expenses. We reviewed the February 2, 2009 bank statement and found that the account was overdrawn by \$1,467.

When questioned, school officials could only explain that the debts had been left unpaid by the former treasurer but could not offer any explanation or documentation to show that funds had not been stolen or the senior dues were not misspent. We immediately contacted the DoE's Auditor General's Office, who notified the Special Commissioner of Investigation for the New York City School District. The Special Commissioner's office has initiated an investigation into this matter.

- Recommendations**
4. Monitor compliance with DoE procedures to ensure that Kennedy officials:
 - maintain a cash journal and performs monthly bank reconciliations; and
 - uses senior dues exclusively for senior activities.
 5. Arrange for payment of the past due senior graduation expenses from DoE funds.
 6. Investigate the potential misuse of GSF funds.

School Store Operations

Kennedy's treasurer is also responsible for managing the daily operations of the school store, including maintaining a cash journal and supporting documents for purchases, sales and store deposits. A school aide worked as the cashier in the school store. Once again, we conclude that there was no accountability over any aspect of the financial management of the school store and it is highly likely that either goods have been stolen or monies have been misused. Although we found the school aide used a cash register to ring up individual sales, she did not use cash register tapes to keep a record of these transactions; nor did she keep any other records to indicate the total daily cash intake before taking the proceeds to the treasurer for deposit. Thus, the cash register provides no record of accountability for monies or any control over cash collected in the school store. Furthermore, the treasurer did not keep inventory records for items purchased for or sold in the store and no school official ever independently verified that the purchases were actually delivered to the store.

We found that the school owed a vending machine company \$22,790 as of June 2008 for supplies purchased for the school store. The school continued to purchase supplies from this vendor during the 2008-09 school

years. However, since no checks were paid to the vendor after June 2008, it is likely that the school has an even higher outstanding balance. Although we asked on several occasions, School officials did not provide us with a more current balance of their debt to this vendor.

In addition, we found that this same vending machine company provided at least a \$1,500 credit per month to the school as a commission on vending machine sales. School officials told us that they used this credit toward the purchase of merchandise for the school store. However, we observed that the store's shelves were virtually empty during a visit to the school store on February 25, 2009.

We conclude that neither DoE nor school officials have adequately overseen the operation of the school store. As a result, even the most basic internal controls, such as proper accounting records, inventory records and daily reconciliation of collections, are absent.

- Recommendation**
7. Establish financial management procedures for school stores that require at a minimum:
- maintenance of school store inventory records; and
 - reconciliation of cash register tapes to the money collected and maintenance of all cash register tapes.

**General
School Fund
Bank Account
Authorization**

According to DoE's Procedures, a school must submit a request to DoE's Bureau of Financial Management and Reporting Banking Unit (Banking Unit) to open a GSF bank account. Prior to February 2008, the school was only required to notify the Banking Unit after they had already opened a GSF bank account. Each school principal should report reconciled GSF account balances to the Banking Unit by July 31st every year. Failure to have these balances reported in the banking system jeopardizes the accurate reporting of cash and fiduciary amounts in the DoE's and the City of New York's financial statements. This is done to establish control over bank accounts and hopefully minimize unauthorized accounts that can be used to conceal transactions.

At Kennedy, the GSF treasurer maintained one GSF checking account, but did not request permission or notify DoE of opening it. In addition, the school principal did not annually submit the reconciled GSF account balance to the Banking Unit by July 31st.

- Recommendation**
8. Require that Kennedy:
- notify DoE's Banking Unit when opening GSF accounts; and
 - annually submit reconciled GSF account balances to DoE's Banking Unit by July 31st.

Agency Comments



Department of
Education

Joell Klein
Chancellor

Division of School Support

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May 20, 2010

Steven E. Sossei
Audit Director
Office of the State Comptroller
110 State Street
Albany, New York, 12236

Re: Draft Audit Report on New York City
Department of Education's
John F. Kennedy High School
Management of General School Funds 2009-N-2

Dear Mr. Sossei:

Per your letter of April 6, 2010, this letter will serve as the New York City Department of Education's ("Department") formal response to the draft audit report by the Office of the State Comptroller ("OSC") in its audit of the Department's John F. Kennedy (Kennedy) High School's Management of General School Funds ("GSF"), to be included as an Appendix to the OSC's final audit report.

As discussed at the exit conference, the Department agrees with the recommendations contained in the draft report. The Department takes the audit findings very seriously and is conducting further review to ensure that appropriate actions are taken.

In addition, the Department's Office of Auditor General ("OAG") will perform a judgmental review of all remaining expenditures from the GSF account for the audit scope period to identify and follow up on any additional inappropriate use of GSF funds at Kennedy HS. If inappropriate items are identified, the school will work with the Division of Financial Operations ("DFO") to reimburse GSF accounts from the appropriate funding source. Children First Network ("CFN") staff assigned to Kennedy HS with assistance from OAG internal control officers will provide ongoing support and guidance regarding appropriate use of GSF, proper recording keeping and approval procedures.

As part of our continuing efforts to effectively and efficiently support principals and school staff on internal control matters, OAG, in partnership with the Division of School Support and Instruction, will announce internal control workshops for specific schools where prior internal and external audit findings have identified deficiencies. This requisite training will be scheduled with the involvement of the school network leaders, and will include the participation of principals and school staff. The training will focus on prior identified areas of deficiency. It will also provide an overview of internal controls to ensure familiarity with the SOP, which should help limit future audit findings and reduce the potential for fraud, waste and mismanagement. On March 24, 2009, OAG provided internal controls training related to GSF accounts to representatives from Kennedy HS. Additional assistance to implement the OSC recommendations will come from the Children First Network staff with support from OAG.

Sincerely,



Eric Nadelstern
Chief Schools Officer

cc: Joel I. Klein
Michael Best
Brian Fleischer
Andrea Breland-Turner
George Davis, Mayor's Office of Operations