



---

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

---

Division of State Government Accountability

---

# **William Alexander Middle School: Management of General School Funds**

---

## **New York City Department of Education**

---



Report 2010-N-10

April 2012

---

## Executive Summary

---

### Purpose

To determine if William Alexander Middle School officials properly managed and administered the school's General School Funds account and if monies from that account were properly accounted for and spent for the benefit of students for the period July 1, 2008 through June 30, 2010.

### Background

Many public schools in New York City maintain General School Funds (GSF) and related bank accounts to deposit and account for fees received from students, including fundraising activities such as bake sales, and candy sales. The funds are generally used to support student activities. Between July 1, 2008 and June 30, 2010, William Alexander officials deposited \$1,111,695 in the school's GSF account and paid out \$1,043,586.

### Key Findings

- School officials used GSF funds to make 99 payments totaling \$58,825, unrelated to student activities. The school's Parent Teacher Association reimbursed \$42,555 of these payments. Of the remaining \$16,270, \$4,614 directly benefited school officials and staff, including cost for staff lunches and holiday parties, gift cards for teachers and a computer that appears to have been used by the principal for personal purposes. The other \$11,656 paid for items that should have been funded through the school's normal budget and tax levy funds.
- Three teachers each cashed \$1,000 checks to pay gratuities for student trips and events. However, vendor invoices for some of these events show that gratuities were already included. Since the teachers' payments were made in cash with no receipts, there is no assurance the funds were actually used as reported.
- Internal controls over cash receipts, disbursements and recordkeeping practices are generally inadequate, evidencing a poor control environment established by school officials. In many cases required forms were not used, journal entries were not made, and supporting documentation was not retained. As a result, we cannot be certain how much money students actually raised during our audit period, nor whether it was all properly deposited.

### Key Recommendations

- Investigate the principal's inappropriate use of computer equipment purchased with GSF funds and pursue disciplinary action as appropriate.
- Reimburse the GSF account for the remaining \$16,270 of inappropriate expenditures identified in this report.
- Prohibit the use of GSF funds to pay additional gratuities when such amounts are already included in original charges for student events. Where gratuities are warranted, ensure that the payments are properly supported and made by check.

### Other Related Audits/Reports of Interest

[New York City Department of Education, John F. Kennedy Education Campus: Management of General School Funds, 2009-N-11](#)

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

**Division of State Government Accountability**

April 19, 2012

Dennis M. Walcott  
Chancellor  
Department of Education  
52 Chambers Street  
New York, NY 10007

Dear Chancellor Walcott:

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, *William Alexander Middle 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*

## Table of Contents

Background	4
Audit Findings and Recommendations	4
Inappropriate Expenditures	5
GSF Funds Used for Expenses Not Related to Students	5
Funds in GSF Used in Lieu of Tax Levy Funds	5
Questionable Payment of Tips for Student Events	6
Unauthorized Purchases and Missing Invoices	7
Recommendations	8
Poor Cash Collection Practices	8
Recommendations	9
Audit Scope and Methodology	9
Authority	10
Reporting Requirements	10
Contributors to This Report	11
Agency Comments	12
State Comptroller's Comment	14

**State Government Accountability Contact Information:**

**Audit Director:** John Buyce

**Phone:** (518) 474-3271

**Email:** [StateGovernmentAccountability@osc.state.ny.us](mailto:StateGovernmentAccountability@osc.state.ny.us)

**Address:**

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

This report is also available on our website at: [www.osc.state.ny.us](http://www.osc.state.ny.us)

---

## Background

---

The New York City Department of Education (Department) is responsible for the New York City public school system which services about 1.1 million students in over 1,500 public elementary, middle and high schools. The Department receives City, State and Federal funding - often referred to as tax levy funds - to operate these schools. In addition, many schools maintain a General School Fund (GSF) bank account to manage money that is collected from and/or raised by the students and school organizations. The GSF normally includes fees collected from students for class trips, proms and yearbooks, as well as money from other fundraising activities such as bake and candy sales. The GSF is used to support and offset extracurricular and co-curricular student activities. These funds are considered held in trust for the students and must be reported as fiduciary accounts in the Department's and City's financial statements. As of June 30, 2010, GSF funds held by City schools totaled about \$29.8 million.

William Alexander Middle School (William Alexander) is one of 277 middle schools operated by the Department. During our audit period, William Alexander maintained a GSF account. School and bank records indicate that, for the 2008-09 and 2009-10 school years, school officials collected a total of \$1,111,695 and disbursed \$1,043,586 from the GSF account. On June 30, 2010, the school reported a balance in this account of \$190,849.

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 manage GSF accounts. The Department's Standard Operating Procedures (Procedures) provide specific rules and guidelines for the handling of the GSF funds.

---

# Audit Findings and Recommendations

---

## Inappropriate Expenditures

The Department's Procedures require that the GSF account expenditures be directly related to student extracurricular and/or co-curricular activities, or be spent for the direct benefit of students. Moreover, such funds may not be used to pay teacher/staff expenses or for any other items that would normally be paid for with tax levy funds without first obtaining the explicit written approval of the community district superintendent or his/her designee.

Between July 1, 2008 and June 30, 2010, 1,332 checks totaling \$1,043,586 were issued from William Alexander's GSF account. We reviewed a judgmental sample of 252 of these checks totaling \$327,898. We selected our sample to focus on transactions that we considered to be of the highest risk for impropriety. We determined that GSF funds should not have been used for 99 of these expenditures totaling \$58,825; \$42,555 of which was subsequently reimbursed by the school's Parent Teacher Association. In addition, we have no assurance that \$3,000 in cash gratuities was disbursed as claimed.

## GSF Funds Used for Expenses Not Related to Students

We identified 20 payments totaling \$4,614 where GSF funds were used to benefit school officials and staff, rather than students and their activities. These included:

- \$3,635 to purchase various breakfasts and lunches for school staff, as well as food served at staff holiday parties and other events;
- \$680 for gifts or gift cards given to teachers; and
- \$299 for a Netbook computer apparently used by the school principal and her children for personal purposes.

When we initially asked to see the Netbook computer purchased for \$299, the principal told us it was assigned to a teacher who was out on maternity leave and who had locked it in a classroom cabinet for which the principal did not have a key. We had already noted that the computer was shipped to the principal's home rather than to the school. We persisted and the principal then took our staff to a classroom and tried to show us a different computer on a subsequent date. When the principal finally provided us with the correct computer on yet another day, we found most of the software and files on it appeared related to her personal activities and those of her children, rather than school business or student activities. We have recommended the Department further investigate this matter and pursue appropriate disciplinary actions as warranted.

## Funds in GSF Used in Lieu of Tax Levy Funds

Each year, NYC public school principals are responsible for developing a school based budget for

their individual school. This budget is the school's plan for expending tax levy funds and should anticipate the needs of the school - especially needs that recur annually. We identified 79 other payments, totaling \$54,211 that should have been funded with tax levy funds, rather than with student funds from the GSF account, as detailed in the following table. In each case, there was no evidence that the community district superintendent had approved any of these expenditures:

<i>Expenses</i>	<i>No. of checks</i>	<i>Amount</i>
Curriculum Development for Teachers	7	\$4,700
School Equipment and Supplies (e.g., calculators, projector screens)	15	\$3,652
Copier Services	2	\$1,734
Postage and Delivery	3	\$ 775
Phone Repair and Student Transportation	3	\$ 400
Payments to NYC Department of Tax and Finance	4	\$ 395
Payments to School Employees	<u>45</u>	<u>\$42,555</u>
<b>Total</b>	<b>79</b>	<b>\$54,211</b>

During fiscal years 2008-09 and 2009-10, without first obtaining approval from the community district superintendent, school officials used GSF funds to pay \$40,555 in additional wages to an employee who had provided technical services to the school. Another \$2,000 was used to pay another teacher for conducting interviews. Although the school's Parent Teacher Association subsequently reimbursed the GSF account for the \$42,555, Department officials agreed that GSF funds should never have been used to pay wages and the practice should be discontinued.

In explaining these inappropriate payments, William Alexander officials advised us that it was their longstanding practice to treat the GSF account as a source of discretionary funds. They further advised that it was quicker and easier to use funds from their GSF account instead of tax levy funds because the process for using tax levy funds was time consuming and involved significant paperwork.

## Questionable Payment of Tips for Student Events

We noted that three teachers had each received and cashed \$1,000 checks from the school's GSF account purportedly to pay gratuities for certain student trips and events. These teachers subsequently indicated the funds were used for tip payments as follows:

- \$1,000 paid to banquet hall staff for a senior prom;
- \$720 paid to the bus drivers and tour guides, and \$280 to staff at two restaurants and a hotel, during a student trip to Washington, DC; and
- \$1,000 to bus drivers and housekeeping staff for a student trip to San Francisco.

School officials were unable to provide any third-party receipts to show that the purported

recipients of the gratuities had actually been paid. As a result, there is no assurance that the entire \$3,000 was actually used as intended. Moreover, we found the vendor invoice for the senior prom already showed that an 18 percent gratuity (\$2,025) was included, and paid, in the cost of the event. We also interviewed the bus company employee who coordinated the Washington, D.C. trip and confirmed that a gratuity was already included in the invoiced cost of the trip. We could not determine if a gratuity had been included in the invoiced costs of the San Francisco trip.

We question the necessity and wisdom of using student funds to pay additional tips for events, such as the prom, where significant gratuities have already been included in the original charges. Where significant gratuities are warranted, they should be distributed in the form of checks payable to the vendor or service provider with clear notation as to their intended purpose.

## Unauthorized Purchases and Missing Invoices

A Request For Expenditure form, authorized in writing by the principal, must be completed before the school's treasurer can disburse funds from the GSF Account. Checks should be written only when supported by vendor invoices or receipts specifying the goods/services purchased and the amount owed to the vendor. Such checks must be signed by two authorized signatories, who cannot issue check(s) to themselves. The Procedures also require the treasurer to contact the payee(s) for the resolution of checks that are outstanding for more than 60 days. If there is no resolution and the check remains outstanding for an additional 30 days (90 days total), the check should be voided and a stop payment request made to the bank.

We could not find the principal's written authorization for 14 of the 252 payments we examined. These payments totaled \$6,615. In addition, William Alexander officials were not able to provide vendor invoices or receipts to support 17 of the 252 expenditures totaling \$4,110. Finally, one check for \$127 had just one, rather than the two, required signatures.

A review of all 1,332 checks disbursed between July 1, 2008 and June 30, 2010, shows:

- Checks totaling \$6,205 were made payable to one of the authorized signatories in 26 instances.
- As of November 16, 2010, 7 checks totaling \$1,504 had been outstanding for more than 3 months, ranging from 147 to 665 days. School officials had neither voided these checks, nor followed up with the payees as required.

The fact that the principal and the treasurer did not perform such key responsibilities in managing and overseeing GSF funds is evidence of a weak control environment within the school. Had the principal regularly monitored the GSF account, she would have recognized that checks were outstanding for significant periods of time; that expenditures were not being authorized properly; and that supporting documentation, such as vendor invoices and receipts, was lacking. We determined that neither the principal nor the treasurer had sought or received appropriate training on the proper management of GSF funds. Without such training and performance of the basic oversight procedures that it teaches, the risk that GSF funds may be misused or misappropriated is significantly increased.

## Recommendations

1. Investigate the principal's inappropriate use of computer equipment purchased with GSF funds and pursue disciplinary action as appropriate.
2. Reimburse the GSF account for the remaining \$16,270 of inappropriate expenditures identified in this report.
3. Prohibit the use of GSF funds to pay additional gratuities when such amounts are already included in original charges for student events. Where gratuities are warranted, ensure that the payments are properly supported and made by check.
4. Provide school officials with additional training on the proper control and use of funds in the GSF account.
5. Monitor William Alexander's GSF account to ensure compliance with the Procedures.

## Poor Cash Collection Practices

The Procedures require the principal to appoint a faculty advisor to take charge of each project or activity that involves student funds. The faculty advisors are required to complete an Authorization to Collect General School Funds form, which must be approved by the principal before any funds are collected. Faculty advisors are also required to issue receipts for any money collected. They must also complete Budget Appropriation Request forms which estimate the amount of money that a school-administered fundraiser should generate if all items offered for sale are actually sold. The Procedures state that this estimated figure should be computed before the start of the fundraiser and then compared with the actual amount raised to establish accountability.

The Procedures also require that collected funds be remitted to the school treasurer timely. The treasurer is then required to issue a receipt and record the transaction in the Cash Journal. The Cash Journal entry must indicate the name of the person who remitted the funds, along with the amount, date of receipt, and the purpose for which the funds were collected. All collected monies must be placed in a secure place until the time of deposit; which should be as soon as possible, but not later than one week after the funds were received. The treasurer is also required to prepare a bank deposit slip, which must equal the amount recorded on the treasurer's receipt(s).

Available records for fiscal years 2008-09 and 2009-10 indicate that the treasurer received, recorded and deposited a total of \$489,129 and \$622,566, respectively, in GSF funds. To determine whether this cash collection process had been followed as required, and whether the cash collected for GSF activities had been accounted for properly, we reviewed GSF records for four months with significant student activity: November 2009, December 2009, March 2010, and May 2010. We also observed certain internal control deficiencies that could lead to the misappropriation of funds. For example:

- Faculty advisors had not completed Budget Appropriation Request forms or similar required documents. Without these forms, it is difficult to determine if the funds collected from an event reasonably match what should have been earned, or to ensure that fundraising did not continue beyond the date when the activity should have ended.

- Faculty advisors do not issue receipts when they collect funds from students and parents, nor do they record the funds or their sources in any Cash Receipts Journal. Without this information, it was difficult to track the source of the money in the GSF account. Moreover, there is no assurance that all of the funds collected were actually submitted to the treasurer for deposit.

As a result of these poor recordkeeping practices, we were unable to determine precisely how much money students had collected during these periods, and accordingly whether all collected funds had actually been deposited in William Alexander's GSF bank account.

## Recommendations

6. Monitor faculty advisors' fundraising and collection activity through the use of appropriate budget forms and cash receipts.
7. Require faculty advisors to issue receipts to students and parents for funds collected and record this activity in a cash receipts journal.

## Audit Scope and Methodology

---

The objectives of our audit were to determine if William Alexander Middle School officials properly managed and administered the school's General School Funds account and if funds from that account were properly accounted for and spent for the benefit of students. Our audit period was from July 1, 2008 through June 30, 2010.

To accomplish our objectives, we reviewed the Department's Procedures and tested GSF collections and expenditures. We also interviewed Department and William Alexander officials. In our review of William Alexander's GSF expenditures, we sought to determine whether selected transactions were student-related, properly supported, and authorized. In our review of the school's GSF cash collection practices, we sought to determine whether cash collection procedures were being adhered to.

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 draft copy of this report to Department officials for their review and comment. Their comments were considered in preparing this report and are included at the end of the report. Department officials generally agreed with our findings, although they felt certain expenses which we cited could be considered proper. They also indicated they have already taken steps to implement our recommendations.

Within 90 days of 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 This Report

---

**John Buyce**, Audit Director  
**Kenrick Sifontes**, Audit Manager  
**Sheila Jones**, Audit Supervisor  
**Rita Verma**, Examiner In Charge  
**Katrina Lau**, Staff Examiner  
**Brenda Maynard**, Staff Examiner

## Division of State Government Accountability

---

Andrew A. SanFilippo, Executive Deputy Comptroller  
518-474-4593, [asanfilippo@osc.state.ny.us](mailto:asanfilippo@osc.state.ny.us)

Elliot Pagliaccio, Deputy Comptroller  
518-473-3596, [epagliaccio@osc.state.ny.us](mailto:epagliaccio@osc.state.ny.us)

Jerry Barber, Assistant Comptroller  
518-473-0334, [jbarber@osc.state.ny.us](mailto:jbarber@osc.state.ny.us)

---

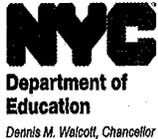
### Vision

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

### Mission

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

# Agency Comments



---

## *Office of School Support*

52 Chambers Street \* Room 208 \* New York, New York 10007  
Phone: 212-374-3457 \* 212-374-7929

Fax: 212-374-5901

March 15, 2012

Mr. John Buyce  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

Re: Audit Report on the New York City Department of Education's  
William Alexander Middle School's  
Management of General School Funds  
Report 2010-N-10

Dear Mr. Buyce:

This letter will serve as the NYC Department of Education's (Department) formal response to the draft audit report by the Office of the State Comptroller (OSC) in its audit of William Alexander Middle School's (School) management of General School Funds (GSF), to be included as an appendix to the OSC's final audit report. The Department has reviewed the draft report and is in overall agreement with the recommendations contained within. The Department takes the audit findings seriously. Consequently, the Department has been working with the School principal and staff to ensure that appropriate corrective actions are taken.

As part of the Department's continuing efforts to provide support to principals and school staff on internal control matters, the Office of Auditor General (OAG) partners with the Office of School Support (OSS) to organize workshops for specific schools where internal and external audit deficiency findings have been identified. These training workshops are provided to the school principal and appropriate school personnel who have oversight of GSF and GSF activities. Trainings are designed to specifically address previously identified areas of deficiency, and provide guidance on the appropriate use of GSF, and proper record keeping and approval procedures. Additionally, these trainings address the necessary compliance issues and provide an overview of internal controls. As a result, school personnel gain clarification on and an understanding of the Department's Standard Operating Procedures, and an awareness of additional standard policies and procedures that should reduce the potential for fraud, waste, and mismanagement.

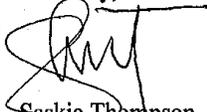
-2-

In March 2011, OAG provided the School Principal and treasurer with the relevant internal controls training, which included a review of all the Comptroller's recommendations. The training specifically reiterated the Department's policy to utilize GSF solely for the direct benefit of the students to support their extra-curricular and co-curricular activities, and the requirement to maintain and document all activities and transactions to ensure compliance with procedures and to avoid future accounting discrepancies. The Principal has already implemented proper procedures to be followed with respect to GSF activities, including strengthening cash collection procedures by utilizing appropriate authorization to collect GSF forms, issuing cash receipts and maintaining cash journals. GSF funds are no longer used to pay cash tips on trips or other events. The Principal monitors GSF activities regularly in order to be able to identify and address any discrepancies. She understands that both OAG's Internal Control Officers and the Children's First Network (CFN) support team are available to support the School with any internal control issues that may arise. OAG is in the process of scheduling a follow up visit to the School this spring to conduct a review of the processes and procedures to ensure that these measures have been implemented and that policies and procedures are being adhered to.

In consultation with the Division of Financial Operations, OSS and OAG, the School has already repaid \$13,568 to the GSF account from the School's tax levy budget. There were several remaining expenditures, totaling \$2,702 where the Department disagreed with the audit findings of non-student related. Those expenditures will not be reimbursed. Procedures have been implemented by the Principal to ensure that the proper documentation to support these types of purchases is maintained for any future audit.

\*  
Comment

Sincerely,



Saskia Thompson  
Chief Executive Officer  
Office of School Support

c: Ken Sifontes  
Brian Fleischer

\* See State Comptroller's Comment, page 14.

---

## State Comptroller's Comment

---

Absent the community district superintendent's required approval, or documentation clearly supporting the direct relationship to eligible student activities, these costs should have been paid from the school's regular tax levy funds.