



New York State Office of the State Comptroller
Thomas P. DiNapoli
Division of State Government Accountability

Michelangelo Middle School: Management of General School Funds

**New York City
Department of Education**



Executive Summary

Purpose

To determine if Michelangelo 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. Our audit period covered the months from July 22, 2008 through August 9, 2010.

Background

Many public schools in New York City maintain one or more General School Funds (GSF) and related bank accounts. These accounts are used to deposit and account for fees received from students, as well as funds raised by students from bake sales, candy sales, and other fundraising activities. The funds are generally to be used in support of the students and their activities. Between July 2008 and August 2010, bank records indicate Michelangelo officials disbursed \$124,090 from the school's GSF account.

Key Findings

- The control environment over the GSF accounts at Michelangelo is weak and, as a result, we found mismanagement and significant deficiencies over the receipt, disbursement and recordkeeping of GSF funds. School officials did not maintain complete or accurate accounting records to document GSF activity, required approval processes were routinely ignored, and there is no reliable record of the amount of funds that should be on deposit.
- For the 2008-09 through 2009-10 school years, the school treasurer recorded receipts for \$128,835 in the accounting records, but only \$126,806 was deposited in the GSF bank account. The treasurer was unable to explain the \$2,029 discrepancy. We have recommended that Department officials investigate this matter.
- We examined support for all 232 payments made between July 2008 and August 2010, and determined \$13,638 was used to pay for items that were not student-related or that should have been paid for with the school's regular tax levy funds. Examples include \$4,329 for school supplies, \$2,096 for staff meals, \$1,809 for postage and delivery fees, and \$1,593 in miscellaneous reimbursements made to teachers.

Key Recommendations

- Investigate what happened to the \$2,029 discrepancy between recorded receipts and the amount deposited into Michelangelo's GSF bank account.
- Reimburse the GSF account \$13,638 for expenses that were not in support of students.
- Train Michelangelo officials to properly oversee GSF funds.

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, Michelangelo 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	5
Poor Cash Collection Practices	5
Recommendations	6
Inappropriate Expenditures	6
Recommendations	8
Poor Recordkeeping Practices	8
Recommendation	9
Audit Scope and Methodology	9
Authority	10
Reporting Requirements	10
Contributors to the Report	11
Agency Comments	12
State Comptroller's Comment	14

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This report is also available on our website at: 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 elementary, middle and high schools. The Department receives City, State and Federal funding – often referred to as tax levy funds. In addition, many schools maintain a General School Fund (GSF) bank account to manage money that is donated to and/or raised by the students and school organizations. The GSF includes graduation, senior trip, prom and yearbook fees collected from students, as well as funds raised from 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 are required to be reported as fiduciary accounts in the Department's and New York City's financial statements. As of June 30, 2010, GSF funds held by New York City schools totaled about \$29.8 million.

Michelangelo Middle School (Michelangelo) is one of 277 middle schools operated by the Department. During our audit period, Michelangelo maintained a GSF bank account. Bank records indicate that, between July 22, 2008 and August 9, 2010, Michelangelo officials disbursed a total of \$124,090 from the school's GSF account. The current school principal was appointed at the beginning of the 2011 school year; subsequent to the time period we audited.

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

Poor Cash Collection Practices

School principals are ultimately responsible for collecting, distributing, and accounting for all monies in GSF accounts. However, the Procedures allow each school principal to assign a member of the school's staff the duty of school treasurer to perform many of the administrative tasks related to the school's GSF account. At Michelangelo, the principal appointed a treasurer to administer the school's GSF account.

The Procedures also require the principal to appoint a faculty advisor to take charge of each project or activity that involves student funds. The faculty advisor is required to prepare an Authorization to Collect General School Funds form, which must be approved by the principal before any funds are collected. This form includes an estimate of the amount of money that a school-administered fundraiser should generate if all items offered for sale were actually sold. The Procedures state that this 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 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 safe, vault, or other secure place until the time of deposit; which should be as soon as possible, but in no case more than one week after the funds were received by the treasurer. The treasurer is also required to prepare a bank deposit slip, which must equal the amount recorded on the treasurer's receipt(s).

Between September 2009 and June 2010, the treasurer issued receipts for \$128,835 but records indicate only \$126,806 was deposited into the bank; a difference of \$2,029. We were unable to explain this discrepancy. We did note, however, that faculty advisors did not always complete required authorization forms and did not always turn collections over to the treasurer in a timely manner. In addition, we noted that the treasurer did not always deposit GSF funds into the school's bank account in a timely manner.

The school treasurer, when asked, told us that she did not know why there was a difference between the funds that were received and the funds she deposited. She indicated that the discrepancy might have occurred because cash was used to reimburse the petty cash account and/or to tip bus drivers. However, she could not produce any documents to support these assertions. We have asked Department officials to investigate this matter.

The Department's internal audits have uncovered similar weaknesses at other schools and officials have told us that school principals have all been issued copies of the GSF procedures and are responsible for all GSF activities. Yet, the principal and treasurer both advised us that they were unaware of the financial management requirements relating to the receipt and disbursement of

GSF funds and that they had neither received nor sought appropriate GSF training.

Recommendations

1. Investigate the \$2,029 discrepancy between receipts and amount deposited into Michelangelo's GSF bank account.
2. Review the activities related to GSF accounts at Michelangelo to ensure that:
 - Authorization to Collect General School Funds forms are prepared;
 - Bank deposit slips reflect the amounts recorded on the treasurer's receipts;
 - Collected funds are remitted to the treasurer and deposited in a timely manner.

Inappropriate Expenditures

The Department's Procedures require that the GSF account expenditures be related directly 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 22, 2008 and August 9, 2010, school officials issued 232 disbursements totaling \$124,090 from Michelangelo's GSF bank account. We reviewed all 232 disbursements and determined that GSF funds should not have been used for 96 of these expenditures, totaling \$13,638.

Non-student Related Expenses

We identified 34 expenditures totaling \$4,466 for non-student related activities. These included:

- \$2,096 to provide breakfast and lunches for Michelangelo staff;
- \$1,430 in donations to various charitable organizations. School officials advised us that students had raised the funds for these donations. However, these school officials could not provide us with any documentation, such as an approved Authorization to Collect General School Funds form, to confirm this assertion;
- \$367 for the purchase of tickets and a donation to an NAACP event honoring one of Michelangelo's teachers;
- \$207 in teacher appreciation gifts; and
- \$366 for iPods and flowers. School officials advised us that the iPods were purchased as rewards for students, but could provide no evidence that any students had ever received them.

In addition, although the Procedures strictly prohibit this practice, we found school officials had written four checks payable to "Cash" to cover the following non-student expenditures:

- \$400 for school opening day activities;
- \$62 for an election day breakfast;
- \$35 for a Christmas gift for a delivery service driver; and
- \$8 for supplies.

The check for \$400, which was cashed by the school's treasurer, was signed only by the school's principal rather than by two signatories, as required.

GSF Funds Improperly Used Instead of Tax Levy Funds

Annually, each NYC public school principal is responsible for developing a school-based budget for his/her 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 58 GSF payments totaling \$8,667 that should have been paid with tax levy funds as detailed in the following table. In each case, there was no evidence that the community district superintendent had approved any of these expenditures.

Expenses	No. of Payments	Amount
General School Supplies	8	\$4,329
Teacher Reimbursements	14	\$1,593
Postage/Delivery	19	\$1,809
Parking, Taxicab Fares and Bridge Tolls	15	\$622
Computer and Instrument Repairs	2	\$314
Total	58	\$8,667

In explaining these payments, Michelangelo officials advised us that it was their long-standing practice to treat the GSF account as a source of discretionary funds to be used as they see fit. 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 for small purchases was time consuming and involved significant paperwork. There is no evidence that the community district superintendent had approved the use of GSF monies for any of these purchases.

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. We could not find the principal's written authorization in 112 of the 232 instances (48 percent) in which funds had been disbursed from the GSF account. In addition, Michelangelo officials were not able to provide us with vendor invoices or receipts to support 65 of the 232 expenditures (28 percent) totaling \$26,616. These expenditures ranged from \$4 for a meal to \$6,594 for the purchase of student yearbooks.

The fact that the treasurer and principal 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 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 management of GSF funds. Without such training, the risk is increased that GSF funds may be misused or misappropriated.

Recommendations

3. Reimburse the GSF account \$13,638 for funds that were disbursed inappropriately.
4. Provide appropriate training to Michelangelo officials who have oversight responsibility for GSF funds.
5. Monitor Michelangelo's GSF account to ensure compliance with the Procedures.

Poor Recordkeeping Practices

The treasurer is required to record all transactions in the Cash Journal. The amounts recorded in the Cash Journal should be equal to the amounts posted on the GSF bank account statement. All checks must have at least two authorized signatures, and none of the authorized signatories can sign a check made out to him/herself. Further, the treasurer is required to prepare monthly bank reconciliations and submit them to the principal for review and approval. The school principal should report the reconciled GSF account balance to the Department by July 31 of each year. We determined that recordkeeping practices at Michelangelo were poor and, as a result, the Cash Journal was inaccurate and incomplete, as follows:

- We noted 43 disbursements totaling \$7,243 that were not recorded in the Cash Journal.
- The treasurer had not performed monthly bank reconciliations of the GSF account as required, and we saw no evidence that the principal had provided adequate oversight to ensure compliance.
- There were significant differences between the Michelangelo's Cash Journal balance and the GSF account balance reported to the Department. As of June 30, 2009, the Cash Journal balance was \$3,545, but the balance reported was \$2,372. On June 30, 2010, the Cash Journal showed \$9,160 on deposit, but the school reported only \$3,520.
- There were 13 checks issued without the two required signatures. We also found one instance in which the principal was one of the signatories on a \$314 check that was made out to her.

Department officials acknowledged the deficiencies and advised that, going forward, they will provide GSF training to appropriate school employees.

Recommendation

6. Review the recordkeeping activities related to Michelangelo's GSF accounts to ensure that:

- all checks have two authorized signatures, as required,
- monthly bank reconciliations are performed timely,
- all activities are recorded in the Cash Journal, and
- the reasons for significant differences between the Cash Journal balance and the GSF account balance are investigated and properly reported.

Audit Scope and Methodology

The objectives of our audit were to determine if Michelangelo 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. Our audit period covered the months from July 22, 2008 through August 9, 2010.

To accomplish our objectives, we reviewed the Department's Procedures and Michelangelo's GSF expenditures and collections. We also interviewed Department and Michelangelo officials. In our review of Michelangelo's GSF expenditures, we sought to determine whether all 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. In addition, we reviewed the recordkeeping practices to determine whether the school maintained an accurate and complete Cash Journal, whether bank reconciliations were being completed, and whether accurate account balances were being reported annually to the Department.

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 the Report

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Vision

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

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

Agency Comments



Office of School Support

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March 7, 2012

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

Re: Audit Report on the New York City Department of Education's
Michelangelo Middle School's
Management and Administration of General School Funds
Report 2010-N-8

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 Michelangelo Middle School's (School) management and administration 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 agrees with the recommendations contained within. The Department takes the audit findings seriously. Consequently, the Department has been working with the principal and staff at the School 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, school staff and appropriate personnel who have oversight of GSF and GSF activities, thus ensuring that policies and procedures are adhered to and specifically address prior 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, interpretation and clarification 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 May 2011 OAG provided appropriate personnel at the School with the relevant internal controls training, which included a review of all the Comptroller's recommendations. The School's principal implemented procedures to utilize required authorization forms and to ensure timely collection and deposit GSF funds. School personnel have a clearer understanding that GSF expenditures are to be utilized solely for the direct benefit of the students to support their extra-curricular and co-curricular activities. The principal is monitoring and overseeing GSF activities to ensure compliance with procedures and to avoid future accounting discrepancies. However, if discrepancies do occur, the principal will ensure they are investigated and resolved promptly. The principal understands that both OAG and his Children's First Network (CFN) support team are available to assist with any GSF issues as they arise. The principal has committed to additional training for any new staff that participates in GSF activities, as well as a visit by OAG Internal Control Officers later this year to conduct a review of the School's current GSF procedures and controls.

In consultation with the Division of Financial Operations, OSS and OAG, the School has already repaid \$10,467 to the GSF account from the School's tax levy budget and is in the process of reimbursing an additional \$1,560. There were several remaining expenditures, totaling \$1,611 where the Department disagreed with the audit findings of non-student related. Those expenditures will not be reimbursed.

*
Comment

Sincerely,



Saskia Thompson
Chief Executive Officer
Office of School Support

c: Ken Sifontes
Brian Fleischer

* See State Comptroller's Comments, 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.