



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

Division of State Government Accountability

Dr. Daniel Hale Williams Middle School: Management of General School Funds

New York City Department of Education



Report 2010-N-9

April 2012

Executive Summary

Purpose

To determine if Dr. Daniel Hale Williams Middle School (Daniel Hale) officials properly managed and administered the school's General School Funds (GSF) account and if funds from that account were properly accounted for and spent for the benefit of students for the period September 1, 2008 through June 30, 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. For the 2008-09 and 2009-10 school years, \$146,629 in revenue and \$154,441 of disbursements flowed through Daniel Hale's GSF account. On June 30, 2010, the balance in the account was \$65,173.

Key Findings

- We identified \$8,529 in GSF expenditures used to pay for items that were not related to student activities. Regular tax levy funds should have been used to pay for \$7,921 of these expenditures since the costs directly related to general school operations. These costs included curriculum supplies, postage and replacement seats for the cafeteria. The remaining \$608 was spent on items that were not directly related to the students, including gift cards, staff food and discount club memberships for the principal and his spouse.
- Daniel Hale officials also did not report accurate GSF account balances to the Department of Education's Bureau of Financial Management and Reporting Banking Unit, resulting in inaccurate reporting of cash and liabilities in the Department's and the City of New York's financial statements.

Key Recommendations

- Require the school principal to reimburse the GSF account \$190 for discount shopping club memberships from which he derived personal benefits.
- Reimburse the GSF account \$8,339 for all other funds that were disbursed inappropriately.
- Report reconciled GSF account balances to the Department's Bureau of Financial Management and Reporting Banking Unit.

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](#)

**New York State
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, Dr. Daniel Hale Williams 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*

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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 public schools. The Department receives City, State and Federal funding - often referred to as tax levy funds. These funds are deposited in the City's bank accounts. Each year, City public school principals are responsible for developing a school-based budget for their individual schools. This budget is a school's plan for expending tax levy funds and should anticipate the needs of the school - especially needs that recur annually. In addition, City public schools maintain a General School Fund (GSF) bank account. This account is a depository for money collected from students and/or student organizations, as well as funds donated to and/or raised by students from bake and candy sales and from other fund raising activities. The funds are considered held in trust for the students and are required to 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.

The Dr. Daniel Hale Williams Middle School (Daniel Hale) is one of 277 middle schools operated by the Department. During our audit period, the school maintained a GSF bank account. For the 2008-09 and 2009-10 school years, \$146,629 in revenue and \$154,441 of disbursements flowed through this account. On June 30, 2010, the balance in the GSF account was \$65,173. The Department's Standard Operating Procedures (Procedures) provide specific rules and guidelines for the handling of the GSF funds. The Procedures state that the school principal is ultimately responsible for the collection, distribution, and accounting of all GSF funds.

Audit Findings and Recommendations

Inappropriate Expenditures

The Department's Procedures require that GSF account expenditures be directly related to student extra-curricular and/or co-curricular activities, or be spent for the direct benefit of students. Moreover, GSF 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. The Department offers training in the proper management and use of student funds. However, we found no evidence that the principal or anyone else responsible for the school's GSF account had sought or received this training. Without such training, it is easier for GSF funds to be used inappropriately.

From September 1, 2008 through June 30, 2010, school officials issued 280 checks totaling \$154,441 from the Daniel Hale GSF account. We determined that 38 of these payments, totaling \$8,529, represented inappropriate use of these student funds. In all instances, the principal had pre-approved the expenditures.

GSF Funds Used in Lieu of Tax Levy Funds

We identified 30 payments totaling \$7,921 that represent normal operating expenses of the school that should have been paid with tax levy funds rather than funds from the GSF account. We saw no evidence that the community district superintendent had approved the use of GSF monies for these expenses, which included:

- \$5,154 to purchase curriculum and other school supplies,
- \$1,174 to purchase replacement seats for the school cafeteria,
- \$1,027 in postage and delivery costs - including State examinations,
- \$366 to purchase State test preparation materials, and
- \$200 paid to tune the school's piano.

The principal and the treasurer were unable to explain why they had diverted student funds to pay for these costs instead of funding them through the normal school budget. For one case regarding the delivery of State Regents examination materials, the principal told us that he used GSF funds because vendors would not accept the school's procurement card. The principal decided to write a GSF check as payment since it was the only checking account available to him at the school. However, this excuse applies to only one of the 30 inappropriate payments that we identified. Furthermore, there was no attempt by school officials to reimburse the GSF account for this or any other inappropriate payment.

DoE officials told us that the principal should have used the school's regular purchasing procedures for these purchases instead of using GSF funds. They also stated that they are in the process of allowing specific vendors (those who deliver State Regents examinations) to be able to accept payment from the schools' procurement card in the future.

Non-student Related Expenses

We identified another eight payments totaling \$608 that were not directly related to student activities. In these instances, GSF funds should not have been used and it is likely that these expenses should not have been funded with tax levy dollars, either. They included:

- \$150 for gift cards given to members of the school's Parent Association,
- \$145 for commemorative plaques given to City Councilman and the school's parent coordinator,
- \$123 for staff food, and
- \$190 for discount shopping club memberships.

With respect to the club memberships, we determined that the school's principal paid a total of \$479 from GSF funds to purchase two-year memberships at BJ's Wholesale Club, Sam's Club, and Costco. Each club membership came with three separate membership cards - one for the school, one for the principal, and one for the principal's spouse. Sam's Club provided membership cards to the principal and his spouse at no additional cost. However, both BJ's Wholesale Club and Costco charged additional fees totaling \$190 (\$90 and \$100, respectively) for the memberships issued to the principal and his spouse. The principal advised us that it was his impression that the extra cards carried no additional cost.

Further, we question the need for the school to have memberships at three different discount clubs, when one may have been sufficient for student needs. Moreover, our review showed very few school-related purchases were actually made from these stores. Once again, we saw no evidence that the community district superintendent had approved the use of GSF monies to purchase these items. Department officials acknowledged the inappropriateness of the expenditures and advised us that they will provide GSF fund training to school officials.

Recommendations

1. Require the school principal to reimburse the GSF account for the \$190 in discount shopping club memberships from which he derived personal benefits.
2. Require the Department and/or school officials to reimburse the GSF account in the amount of \$8,339 for all other funds that were disbursed inappropriately.
3. Eliminate two of the three discount club memberships, as well as the additional membership cards for the principal and his spouse.
4. Provide appropriate training to Daniel Hale officials who have oversight of GSF funds.

Incorrect Reporting of Account Balances

According to the Procedures, each school principal should report the reconciled GSF account balances to the Department's Bureau of Financial Management and Reporting Banking Unit (Banking Unit) by July 31st of each year. Failure to report correct account balances jeopardizes the accurate reporting of cash and fiduciary amounts in the Department's and the City's annual financial statements.

We found differences of \$8,259 and \$5,373, respectively, between the school's Cash Journal balances and the GSF bank account ending balances reported to the Banking Unit at the end of the 2008-09 and 2009-10 school years. Our review showed Daniel Hale officials had reported bank statement balances to the Banking Unit and that the differences between the amounts reported and the school's Cash Journal balance represented outstanding checks that had not been reconciled. School officials advised that, going forward, they will ensure that only reconciled GSF bank balances are reported to the Banking Unit.

Recommendation

5. Report reconciled GSF account balances to the Department's Bureau of Financial Management and Reporting Banking Unit.

Audit Scope and Methodology

The objective of our audit was to determine if Daniel Hale officials managed and administered the GSF account in accordance with the Procedures and if funds from that account were properly accounted for and spent for the benefit of the students. Our audit period was from September 1, 2008 through June 30, 2010.

To accomplish our objective, we reviewed the Department's Procedures and Daniel Hale's GSF collections and expenditures. We also interviewed Department and Daniel Hale officials. In our review of GSF expenditures, we sought to determine whether all transactions were student-related, properly supported, and authorized. In our review of the school's reporting of the GSF account balance, we sought to determine 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 Commissioner of the New York City Department of Transportation 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.

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

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February 13, 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
Dr. Daniel Hale Williams Middle School's
Management and Administration of General School Funds
Report 2010-N-9

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 Dr. Daniel Hale Williams 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 School to ensure that appropriate corrective actions are taken.

In consultation with the Division of Financial Operations (DFO) and the Office of Auditor General (OAG), the School has already repaid \$7,699 to the GSF account from the School's tax levy budget. There were several remaining expenditures, totaling \$640 where the Department disagreed with the audit findings of non-student related. Those expenditures will not be reimbursed. In the January 24, 2012 edition of Principals Weekly, all principals were advised that the GSF was not to be utilized for the expense of returning Regents boxes to Albany. Principals were instructed to utilize purchase orders or procurement cards from their school budgets for this expense.

From his personal funds, the principal has reimbursed the GSF account for \$190 for two years worth of memberships at two different discount shopping clubs. One membership has already expired and the second will expire this school year. Moving forward, the School principal will have only one business membership card at one discount shopping club to be used solely for school activities.

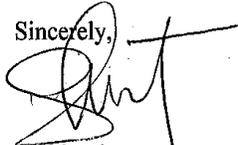
* See State Comptroller's Comment, on page 13.

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Comment

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As part of the Department's continuing efforts to provide support to principals and school staff on internal control matters, OAG partners with the Office of School Support to organize workshops for specific schools where internal and external audit deficiency findings have been identified. These training workshops will be provided to the School principal, school staff and appropriate personnel who have oversight of GSF, thus ensuring that policies and procedures are adhered to and would specifically address prior identified areas of deficiency, and provide guidance on the appropriate use of GSF, and proper record keeping and approval procedures. The training at this School will include the Comptroller's recommendation that the School report reconciled GSF account balances to DFO's Bureau of Financial Management and Reporting Unit annually. Additionally, it will provide them with 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 would reduce the potential for fraud, waste, and mismanagement.

Sincerely,



Saskia Thompson
Chief Executive Officer
Office of School Support

c: Ken Sifontes
Brian Fleischer

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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.