

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 30, 2014

Ms. Carmen Fariña
Chancellor
New York City Department of Education
Tweed Courthouse
52 Chambers Street
New York, NY 10007

Re: Management of General School Funds
Report 2013-F-32

Dear Chancellor Fariña:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article III of the General Municipal Law, we have followed up on the actions taken by officials of John F. Kennedy Educational Campus to implement the recommendations contained in our audit report, *Management of General School Funds* (Report 2009-N-11).

Background, Scope and Objectives

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 with approximately 2,148 students. Each high school has its own principal, teachers, and administrative staff. General school fund (GSF) bank accounts hold the accumulated funds donated to and/or raised by students and school organizations to support extracurricular and co-curricular student activities. This includes funds raised for senior-year activities, such as the senior prom and yearbook, and money raised by students from bake sales and other activities undertaken to offset extracurricular expenses.

During our initial audit, GSF accounts were maintained at four of the Kennedy Campus schools: Marble Hill High School for International Studies (Marble Hill), Bronx Theater High School (Bronx Theater), Bronx Engineering and Technology Academy (Bronx Engineering), and Bronx High School of Law and Finance (Bronx Law and Finance). The English Language Learners and International Support Preparatory Academy did not have GSF accounts at the time of our initial audit. (Note: The use of GSF accounts by John F. Kennedy High School was covered by our follow-up report 2013-F-33, issued on January 16, 2014.)

Our initial audit, which was issued on May 25, 2010, examined the financial management practices related to general school funds to determine if such funds were managed and administered in accordance with DoE guidelines and if the DoE had provided adequate oversight of these funds on the Kennedy Campus. The objective of our follow-up was to assess the extent of implementation of the nine recommendations included in our initial report, as of July 9, 2014.

Summary Conclusions and Status of Audit Recommendations

We found that DoE officials have made progress in addressing the issues identified in our initial report. However, additional improvements are still needed. Of the nine prior recommendations, six have been implemented and three have been partially implemented.

Follow-up Observations

Recommendation 1

Require the Bronx Law and Finance principal to reimburse the GSF funds for the personal and non-student-related expenditures he made from GSF funds.

Status - Implemented

Agency Action - In response to our findings, the principal of Bronx Law and Finance reimbursed the GSF fund for his personal and non-student-related expenditures.

Recommendation 2

Require the Bronx Theater principal and the Marble Hill principal to cancel the debit cards associated with their respective school GSF account.

Status - Implemented

Agency Action - The debit cards associated with these schools' GSF accounts were cancelled. Documentation from the banks where the schools maintain their GSF accounts confirms that there are no debit cards associated with these accounts.

Recommendation 3

Reimburse the applicable GSF accounts \$786 for the inappropriate expenditures identified in our sample.

Status - Implemented

Agency Action - We found that the applicable GSF accounts were reimbursed for the \$786 in inappropriate expenditures that we identified in our prior audit report.

Recommendation 4

Perform an independent review of all remaining GSF expenditures from the GSF accounts for the audit scope period to identify any additional inappropriate use of GSF funds and, if items are identified, arrange for reimbursement of GSF accounts from the appropriate source(s).

Status - Implemented

Agency Action - The DoE's Office of the Auditor General (OAG) performed an independent review of the remaining expenditures from the GSF accounts for our original audit scope period to identify any additional inappropriate uses of GSF funds. We found that the GSF accounts were reimbursed for the inappropriate uses that the OAG identified.

Recommendation 5

Review the activities related to GSF accounts at the Kennedy Campus to ensure that all school purchases are directly related to students' extracurricular activities, all purchases are pre-approved by the principal and supported by appropriate receipts or invoices, and that each school documents that goods and services are received prior to payment.

Status - Partially Implemented

Agency Action - DoE officials performed an independent review of a sample of the expenditures from the GSF accounts for the Kennedy Campus for the period July 1, 2010 through February 15, 2011. Their review found issues similar to those reported in our initial audit, such as expenditures that were incurred for non-student related items and a lack of evidence that goods or services were received. They also found instances where invoices were not available for review and funds were not deposited or submitted to the Treasurer timely.

We reviewed a sample of 68 purchases, made in the first half of 2014, related to GSF accounts at the Kennedy Campus to determine if: the purchases were directly related to students' extracurricular activities; the purchases were preapproved by the principal and supported by appropriate receipts or invoices; and each school had documented that the goods and services were received prior to payment. While we found that all of the selected purchases were directly related to students' extracurricular activities, 21 purchases were not supported by appropriate receipts or invoices, and for 59 invoices the schools did not document that the goods and services were received prior to payment.

Recommendation 6

Ensure that Marble Hill, Bronx Theater, Bronx Engineering, and Bronx Law and Finance appoint a treasurer for its GSF accounts.

Status - Implemented

Agency Action - In response to our prior audit, treasurers for the GSF accounts at Marble Hill, Bronx Theater, Bronx Engineering, and Bronx Law and Finance were appointed.

Recommendation 7

Ensure that each school maintains a cash journal, performs monthly bank reconciliations, and makes timely bank deposits.

Status - Partially Implemented

Agency Action - As previously discussed, the OAG performed an independent review of the GSF accounts for the four schools. This review included a determination as to whether the schools were maintaining cash journals, performing monthly bank reconciliations, and making timely bank deposits. The OAG review found that Marble Hill, Bronx Theater, Bronx Law and Finance, and Bronx Engineering had no written documentation that monthly bank reconciliations were either prepared or approved.

For the period July 1, 2013 through February 2014, our follow-up review found that Bronx Theater did perform bank reconciliations, but it did not maintain a cash journal, and deposit slips for two receipts (totaling \$3,530) were not provided. Therefore, we could not determine if the deposits were timely or if they were made at all. The other three schools maintained cash journals, performed monthly bank reconciliations, and made timely bank deposits.

Recommendation 8

Ensure that each of the four high schools notify DoE's Banking Unit when opening GSF accounts and annually report their reconciled account balances by July 31.

Status - Implemented

Agency Action - All four high schools (Marble Hill, Bronx Theater, Bronx Engineering, and Bronx Law and Finance) submitted their reconciled balances report for the 2013 school year to the DoE. DoE's Standard Operating Procedures require all new GFS accounts opened to be processed through the New York City Department of Finance, which in turn notifies DoE's Banking Unit. This procedure ensures that DoE is notified when a school opens an account.

Recommendation 9

Provide training to all school employees who are responsible for GSF accounts and take disciplinary action against school officials for the misuse of GSF funds.

Status - Partially Implemented

Agency Action - During the 2012 and 2013 school years, the DoE provided training to the school officials responsible for GSF accounts at the selected John F. Kennedy campus schools. The principals of the four schools attended this training. No disciplinary actions were taken against school officials for the misuse of GSF funds noted in our prior report.

Major contributors to this report were Santo Rendon, Jeffrey Marks, and Farhan Ahmad.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We thank the management and staff of John F. Kennedy Educational Campus for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Michael Solomon
Audit Manager

cc: Marlene Malamy, DOE