

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

Division of State Government Accountability

Herbert H. Lehman High School: Management of General School Funds

**New York City
Department of Education**



Report 2010-N-11

July 2012

Executive Summary

Purpose

To determine if Herbert H. Lehman High 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 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. Between July 2008 and June 2010, Lehman officials deposited \$1,167,728 in the school's GSF account and paid out \$1,015,169. The account balance on June 30, 2010 was \$104,821.

Key Findings

- We determined that \$26,064 in GSF funds were used to pay for items that were not student-related or should have been paid for with the school's regular tax levy funds. Examples include \$9,450 for music equipment, \$9,061 for administrative and other supplies, \$956 for a camera, and \$660 to reimburse students for personal items that were either lost or damaged at school.
- Lehman officials did not establish an adequate system of accountability over the operations of the school store, the revenues from which were deposited in the GSF account. There were no inventory records and no system (such as a cash register) to record sales. In fact, daily sales were routinely calculated simply by counting the cash on hand at the end of the day.
- In 2004, the school's former principal made what appears to be an improper deal with a vendor to forgive \$8,046 in charges for photography services at the school prom in exchange for the exclusive 10-year right to similar business. Current school officials had not lived up to these promises and the vendor is now seeking payment.

Key Recommendations

- Reimburse the GSF account for all tax levy items were purchased with student funds.
- Improve accountability over school store operations by instituting appropriate financial management practices.
- Investigate the \$8,046 outstanding claim against the school and ensure that all GSF-related bills are paid promptly in the future.

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

July 12, 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, *Herbert H. Lehman 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*

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State Government Accountability Contact Information:

Audit Director: John Buyce

Phone: (518) 474-3271

Email: 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

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. 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 the school 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 funds collected from students and/or student organization. The GSF includes graduation, senior trip, prom and yearbook fees collected from students, as well as funds donated to and/or raised by students from bake and candy sales; and other fundraising activities such as school stores. The 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.

Herbert H. Lehman High School (Lehman) is one of 383 high schools operated by the Department. Bank records indicate that, for the 2008-09 and 2009-10 school years, Lehman officials deposited \$1,167,728 in school's GSF account, including \$185,846 raised by the school store, and paid out \$1,015,169. On June 30, 2010, there was \$104,821 in the account.

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 Procedures require that GSF account expenditures be related directly to student extracurricular and/or co-curricular activities, or be spent for the direct benefit of students. Further, goods and services should be purchased with tax levy and/or reimbursable school funds before GSF funds are utilized. Moreover, GSF funds may not be used to pay for any 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. All purchases from the GSF account must be pre-approved by the principal or his/her designee.

Between July 2008 and June 2010, school officials issued 1,018 checks totaling \$1,015,169 from the GSF bank account. We determined that, contrary to Procedure requirements, 543 of these payments totaling \$729,842 were not approved until after the purchases had already been made. We also identified 36 payments totaling \$26,064, which should not have been made using GSF funds, as follows:

- \$9,450 for music equipment, supplies, and repairs; including a \$1,399 MacBook Pro computer and \$1,794 in computer software;
- \$4,749 for administrative supplies, including \$1,431 for printer toner;
- \$4,312 for supplies used to make student identification cards (IDs);
- \$3,130 for an amplifier and curtain repairs for the school's auditorium;
- \$2,209 for student advanced-placement examinations;
- \$956 for a camera used during graduation ceremonies;
- \$660 in reimbursements to students for personal items that were either lost or damaged at school, including an iPod (\$200), a cell phone (\$300), a jacket (\$100), and a pair of glasses (\$60);
- \$520 for a class ring; and
- \$78 to reimburse a teacher for taxi fare.

There was no evidence that the community district superintendent had approved the use of GSF monies for any of these 36 expenditures. Lehman officials told us that they generally used GSF funds to purchase items that students had requested and that some of the items we cited were used for a mix of co-curricular, extracurricular, and regular instructional activities. However, these items were of the type that should normally be purchased with tax levy funds. More importantly, they demonstrate an incomplete understanding by school officials of the need to clearly distinguish between school and student funding.

For example, Lehman officials spent GSF monies to purchase supplies that were used to make student ID cards. Although the officials charged students \$2 for each replacement ID and deposited the receipts into the GSF account to defray costs, they failed to recognize that making an ID is an administrative function and GSF funds should not have been used to purchase these supplies in the first place. We found that none of the officials responsible for the management of GSF funds

at Lehman had ever sought or received specific GSF training from the Department. Such training would help ensure that officials more clearly understand their roles and responsibilities.

Recommendations

1. Reimburse the GSF account for all tax levy items purchased with student funds.
2. Provide training to Lehman officials responsible for managing GSF funds.
3. Monitor Lehman's GSF account to ensure compliance with the Procedures.

School Store Operations

Lehman operates a school store that is managed by the Director of Athletics and staffed by a full-time cashier. Between September 2008 and June 2010, \$185,846 in revenue from the store was deposited in the school's GSF account. Our review determined that Lehman officials did not establish an adequate system of accountability over the operations of the store. We found that the cashier did not use a cash register to record the type or number of items sold, or the dollar amount of each sale. Instead, the Director of Athletics told us the cashier determines the income earned each day simply by counting the cash on hand at the end of the day and subtracting the starting amount. Without supporting sales records, there is a significant risk for errors or theft, and no assurance that all revenues are recorded and submitted to the treasurer.

We also determined that there were no inventory records for items purchased or sold in the store, and no one independently verifies that items billed for were actually received and used as store stock. Instead, when orders come in through the school's receiving dock, they are delivered to the store without inspection or physical count.

Good business practices require that Lehman officials maintain complete and accurate sales and inventory records for the school store. When we brought these deficiencies to the attention of school officials, they took immediate action to install a cash register to record sales and instituted inventory procedures.

Recommendation

4. Improve accountability over school store operations by instituting appropriate financial management practices that include, at a minimum:
 - Maintaining accurate sales and inventory records,
 - Performing periodic physical inventories, and
 - Independently verifying goods received against purchase orders and invoices.

Outstanding Liabilities

Principals are required to ensure that all GSF-related bills are paid promptly. To determine whether Lehman was paying its GSF-related bills on time, we contacted a judgmental sample of seven vendors who were paid significant amounts between July 2008 and June 2010. One of the vendors asserted that Lehman still owed it \$8,046 for services performed several years earlier.

In this instance, the vendor had provided photography services for the school prom in 2003 and had originally billed the school for the services. In January 2004, at the request of the school's former principal, the vendor agreed to forgive the debt in exchange for an "exclusive" 10-year agreement to provide annual school portraits for Lehman's graduating classes. The vendor told us that the school had failed to follow through with the terms of the agreement and the 10-year contract was voided two years later. The vendor advised that it had re-submitted the original invoice to the school in June 2008, but had not yet been paid.

Department officials advised us that the former principal was not authorized to enter into and negotiate an exclusive agreement with the vendor. Further, while current school officials acknowledge that they had not fulfilled the terms of the agreement, they dispute that the vendor had re-submitted a bill or otherwise requested payment for the previously forgiven amount.

Recommendation

5. Investigate the \$8,046 outstanding claim against the school and ensure that all GSF-related bills are paid promptly in the future.

Audit Scope and Methodology

The objectives of our audit were to determine if Lehman 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 was from July 1, 2008 through June 30, 2010.

To accomplish our objectives, we reviewed the Department's Procedures and Lehman's GSF expenditures and collections. We also interviewed Department and Lehman officials. In our review of Lehman's GSF expenditures, we sought to determine whether all transactions were student-related, properly supported and authorized. In our review of Lehman's school store, we sought to determine whether school officials established an adequate system of accountability over operations.

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 comments. Their comments were considered in preparing this report, and are included at the end of the report. Department officials generally agreed with our findings and recommendations, although they felt certain expenses which we cited as inappropriate should be considered appropriate. Department officials 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 herein, and where recommendations were not implemented, the reasons why.

Contributors to This Report

John Buyce, Audit Director
Kenrick Sifontes, Audit Manager
Stephen Lynch, Audit Supervisor
Jeffrey Marks, Examiner-in-Charge
Farhan Ahmad, Staff Examiner
Menard Petit-Phar, Staff Examiner
Natalie Sherman, Staff Examiner

Division of State Government Accountability

Andrew A. SanFilippo, Executive Deputy Comptroller
518-474-4593, asanfilippo@osc.state.ny.us

Elliot Pagliaccio, Deputy Comptroller
518-473-3596, epagliaccio@osc.state.ny.us

Jerry Barber, Assistant Comptroller
518-473-0334, jbarber@osc.state.ny.us

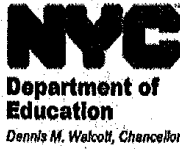
Vision

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



May 2, 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
 Herbert H. Lehman High School's
 Management of General School Funds
 Report 2010-N-11

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 Herbert H Lehman High 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 generally in agreement with the recommendations contained within.

During the current school year, school officials have already implemented a number of the audit recommendations to improve accountability. Internal control improvements to the school store operations have included the purchase and installation of a cash register, scanning equipment and software to monitor sales on a daily basis. The treasurer provides both the Assistant Principal of Athletics and the Assistant Principal of Organization (APO) with a daily cash receipts report. Beginning and end of school year inventory reconciliations take place, as well as monthly inventory reviews during the school year. When deliveries arrive at the school, the stock aide performs a physical count and another aide verifies the delivery by re-counting and comparing the items to the packing slip. There is also a process to document retrieval of items from the stockroom to the school store. Regarding oversight of the GSF activities, both the Principal and APO review monthly reports from the treasurer. All required authorization to collect funds and expenditure forms are utilized to ensure compliance with Standard Operating Procedures (SOP). All required documentation for both the GSF activities and the school store are maintained as required.

Regarding the audit recommendation for the school to reimburse the GSF account for all tax levy items purchased with student funds, while we would generally agree to that recommendation, in this audit we respectfully disagree with the OSC auditor's statement that 36 payments totaling \$26,064 should have been purchased with tax levy funds. The Department's position is that 97% of these expenditures (\$25,404) were appropriate disbursements from a GSF. Over \$14,000 of that amount went to support

* See State Comptroller's Comments, page 13.

* Comment 1

student participation in extra-curricular and co-curricular activities. For instance, students in the Drama and Performing Arts Clubs raised the funds to purchase the musical equipment, supplies and necessary repairs in order for them to utilize these items for numerous after school concerts and plays. The Mac book Pro laptop and software was utilized by the Drama Club for their performances. Emergency repairs to equipment and instruments occurred the day before or the day of these performances. The amplifier purchase was solely for the students use after school. The school has its own separate PA system for their day-to-day use of the auditorium. The camera was purchased for the use of the Yearbook Club whose members document school activities, including graduation, throughout the school year.

The utilization of the GSF account for funds accumulated for a limited purpose is acceptable, as long as the funds are used only for the specific purpose for which they were collected. The Advanced Placement (AP) examinations, Teacher's Choice Programs administrative supplies and student identification card expenses all belong in this category. Students were required to pay a fee for each AP exam taken. Those fees were collected and deposited in the GSF and payment was subsequently issued to the College Board. As part of the Teacher's Choice Program, teachers are allowed to pool all or any part of their allocation to purchase supplies or instructional equipment necessary to the daily operations of a school. Additional supplies purchased outside of Teacher's Choice funds were used to support students' participation in the school's 32 clubs, for instance advertising of club activities on an ongoing basis throughout the school year. The Department agrees that issuing initial student identification cards is an administrative expense and students at Lehman are issued these cards free of charge. However, if a student loses their identification cards, the school charges a \$2 replacement fee. The funds raised from the fees are utilized for supplies to issue these identification cards, just as lost book fees collected from students are deposited in the GSF to replace lost books. None of the above mentioned expenditures required Superintendent's approval because they were raised and used for the purposes intended.

*
Comment
2

The Department agrees that the use of GSF to replace personal items belonging to students that were either lost or damaged at the school was not appropriate. The school has already repaid the GSF \$660 from their tax levy budget.

Regarding the vendor with an invoice from 2008, the school has determined that the \$8,046 outstanding claim is not valid and therefore no payment will be made. Additionally, other than this one invoice, OSC's review did not find any other instances where bills were not paid promptly. The school will continue its policy of paying all valid invoices promptly.

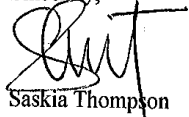
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Comment
3

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 SOP, and an awareness of additional standard policies and procedures that should reduce the potential for fraud, waste, and mismanagement. On May 18, 2012,

* See State Comptroller's Comments, page 13.

OAG will provide internal controls training to the School's new Principal and all personnel with oversight of GSF and GSF activities.

Sincerely,



Saskia Thompson
Chief Executive Officer
Office of School Support

C: Ken Sifontes
Brian Fleischer

State Comptroller's Comments

1. We determined that the 36 payments, totaling \$26,064, should have been made with tax levy funds since many of the purchased items, including emergency repairs, were related to curriculum and regular instructional activities. School officials did not provide documentation to support that those costs were related to more specific eligible activities. In addition, the Procedures state that goods and services should be purchased with tax levy and/or reimbursable school funds before GSF monies are used.
2. We agree that Superintendent's approval is not required when GSF monies are used for the purposes for which they were raised. However, Lehman officials could not provide any evidence to show that AP examination and ID card replacement fees, supposedly collected from students, were actually expended for those purposes. Similarly, there was no documentation to show that Teacher's Choice funds were accumulated and used to purchase the supplies and instructional equipment in question.
3. Department officials appear to have relied on school officials assertions that the outstanding claim is not valid. We believe that Department officials should conduct their own independent investigation regarding the validity of the claim.