

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

Division of State Government Accountability

James Madison High School: Management of General School Funds

**New York City
Department of Education**



Report 2011-N-1

July 2012

Executive Summary

Purpose

To determine if James Madison High School officials properly managed and administered the school's General School Funds accounts and if monies from those accounts were properly accounted for and spent for the benefit of students. Our audit period covered the months from July 1, 2009 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 2009 and June 2010, James Madison officials deposited \$656,804 in the school's GSF accounts and paid out \$602,225.

Key Findings

- We examined 89 disbursements totaling \$228,964 and identified \$6,856 in GSF funds used to pay for items that were not student-related or should have been paid for with regular tax levy funds. Of this amount, \$3,251 in salary loans made to teachers has since been repaid by the Department.
- James Madison officials did not establish an adequate system of accountability over the operations of the school's Gym Store and its faculty Café. There were no inventory records and no reliable system to record sales at either location. The Café has a cash register, but there is no tape in it to record sales. Our tests showed manual records from the Gym Store conflicted with the treasurer's records, evidencing missing receipts, duplications and improperly voided documents. As a result, we were unable to ensure that all revenues were properly accounted for.
- As of February 22, 2011, we identified 25 GSF checks totaling \$5,836 that had been outstanding for periods ranging from 239 to 509 days. Procedures call for uncashed checks to be investigated after 60 days and cancelled after 90 days. School officials told us they were unaware of the requirement to follow up on outstanding payments.

Key Recommendations

- Reimburse the GSF account for the remaining \$3,605 that was disbursed inappropriately.
- Improve accountability over Gym Store and Café operations by instituting appropriate financial management practices.
- Provide appropriate training to all James Madison officials who have oversight and custody of 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**

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, *James Madison 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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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.

James Madison High School (James Madison) is one of 383 high schools operated by the Department. During our audit period, James Madison maintained two GSF bank accounts. Bank records indicate that between July 1, 2009 and June 30, 2010, James Madison officials deposited \$656,804 into these accounts and paid out \$603,225.

Accountability, fiscal integrity, and adherence to 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 the 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 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 2009 and June 2010, school officials issued 775 checks totaling \$603,225 from James Madison's GSF accounts. We reviewed a judgmental sample of 89 of these checks totaling \$228,964. 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 19 payments totaling \$6,856. Five of these payments totaling \$3,578 were not related to student activities. These included:

- \$3,251 in salary loans to two new teachers. School officials advised that they had received permission from officials in the Department's payroll office to pay the salaries with funds from the GSF accounts. However, they could not provide any documentation to support this assertion. The teachers subsequently repaid the loans.
- \$327 to replace cell phones. School officials explained that teachers had confiscated and subsequently misplaced three students' cell phones. School officials then used GSF funds to replace these phones.

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 14 other expenditures totaling \$3,278 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.

| <u>Expenses</u> | <u>No. of checks</u> | <u>Amount</u> |
|--|----------------------|----------------|
| Books and General School Supplies | 4 | \$1,616 |
| Forms for Test-Taking | 1 | 719 |
| Postage and Delivery of Regents Exams | 2 | 584 |
| Transportation/Parking | 1 | 40 |
| Locks, Keys & Hardware | 4 | 218 |
| Lab Supplies | 2 | 101 |
| Total | 14 | \$3,278 |

School officials reimbursed the GSF account for the \$3,251 loaned to teachers, but felt the remaining \$3,605 was spent for the benefit of students and therefore should be considered valid. They provided us with explanations for several of the payments we questioned, but their justifications often demonstrated an incomplete understanding of the need to clearly distinguish between school and student funding. For example:

- Officials told us the New York State Education Department allows only one particular vendor to pick-up and return Regents exams from schools. This vendor demands payment upon pick-up, in the form of a school check. Since the GSF is the only checking account the school has, they pay the vendor with these student funds.
- Officials also explained that the book payments included a set of encyclopedias the school had received on a trial basis and decided not to purchase with budgeted funds. However, instead of returning them, officials used GSF funds to pay for the books and then said they donated them to the school library.
- Officials also justified using these funds to reimburse a teacher for parking, because the teacher was attending a student award ceremony.

However, officials could not provide documentation to adequately support their justifications, nor was there evidence that any of these payments had been approved by the community district superintendent, as required.

Recommendations

1. Reimburse the GSF account for the remaining \$3,605 that was disbursed inappropriately.
2. Monitor James Madison's GSF accounts to ensure compliance with the Department's procedures.

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 principal to assign a staff member the duty of school treasurer to perform many of the administrative tasks related to the school's GSF account. At James Madison, 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).

We reviewed 58 "Authorization" forms issued during the 2009-10 academic year and found 25 were missing the estimated amount to be collected, as well as the required signatures authorizing the activities. Without accurate and complete documents, the principal and the treasurer are limited in their ability to ensure that funds are not raised through unauthorized activities, or that the amount of collections reported and turned over the treasurer is appropriate.

We reviewed internal controls in place for selected school activities that fund the GSF account and identified several problems that increase the risk that student funds could be lost, stolen or misapplied. These include deficiencies in the accounting records, a lack of inventory records to maintain accountability over items offered for sale, and funds that were not paid over to the treasurer timely but instead were kept in unsecured locations.

Gym Store

James Madison operates a Gym Store that sells locks and official school athletic uniforms. Store operations are supervised by the Assistant Principal for Physical Education. There are no cash registers in use, but procedures require that a receipt be issued for each sale. The receipt must list the date of the sale, the name of the student, the item sold and the amount paid. The receipt is given to the student and a copy maintained by the salesperson. Each day's sales are summarized on a "Summary of Receipts" form, which should then be given to the treasurer along with all monies collected. We reviewed 22 "Summary" forms submitted to the treasurer during September 2009 against the supporting sales receipts maintained by the Assistant Principal and found the following abnormalities:

- 12 of the 22 Summary forms could not be reconciled, including \$976 of individual sales that were reported and paid to the treasurer twice. In total, there was \$570 more paid to the treasurer with the Summary forms than was recorded on the supporting sales receipts, indicating that unrecorded sales are likely to have occurred.
- The Summary forms included \$344 from sales made during April, May, and June 2009. These funds were not turned over to the treasurer for three to five months after collection.
- The store's copies of several receipts totaling \$364 had been voided, but the originals were not retained. Without a copy of the receipt, there is a risk that the transaction may have been voided after the sale was completed to cover for a cash shortage. Further, it is difficult for management to follow up on these transactions, since the receipts did not always contain the students' names as required.
- Proceeds from sales were not always kept in a secure location. For example, on March 28,

2011, we found cash proceeds from sales sitting on a desk in the Gym Store's storeroom.

- There was no perpetual inventory system to keep track of store stock and no evidence physical inventories were performed to ensure that all goods were accounted for.

The Assistant Principal was unable to explain the differences we found and blamed the problems, in part, on having too many people involved in collecting the money without the proper knowledge of the Procedures or good business practices. School officials confirmed that neither the Assistant Principal nor the assistant coaches had received any specialized GSF training to prepare them for handling sales and receipts.

Faculty Café

In part to provide special education students with business experience, James Madison also operates a breakfast café that sells items such as coffee and bagels to teachers. A faculty advisor oversees the Café's operations, orders supplies, supervises the student sales staff and remits sales proceeds to the treasurer. We reviewed the Café's operations for the 2009-10 academic year and noted:

- Although school officials told us the Café breaks even, we found expenses exceeded revenues by about \$1,100.
- Delays in remitting funds to the treasurer ranged from 5 to as many as 13 days.
- The Café has a cash register, but it does not use a tape or other means to maintain a record of daily income and expenditures.
- The faculty advisor often buys supplies using her own funds, without keeping appropriate records of her purchases, and then requests reimbursement from the GSF.
- Teachers are sometimes allowed to make purchases on credit. However, documentation supporting these debts is routinely destroyed at the end of each week.

Consistent with the Gym Store operation, school officials confirmed that no specific training had been provided to the faculty advisor who oversees the Café operation.

Recommendations

3. Review the activities related to GSF accounts at James Madison to ensure that:
 - Authorization to Collect General School Funds forms are prepared;
 - Funds are properly secured and remitted to the treasurer in a timely manner;
 - Perpetual and periodic inventories are performed and documented.
 - Transactions are recorded accurately and completely.
4. Provide appropriate training to all James Madison officials who have oversight and custody of GSF funds.

Poor Controls Over Outstanding Checks

Procedures require that the treasurer prepare monthly bank reconciliations and submit them to the principal for review and approval. When a check has been outstanding for more than 60 days, the treasurer is to contact the payee for resolution. If no resolution is reached and the check remains outstanding for an additional 30 days (90 days total), it is to be voided and the bank should be instructed to stop payment.

As of February 22, 2011, we identified 25 checks totaling \$5,836 that had been outstanding for periods ranging from 239 to 509 days. James Madison officials told us they were unaware of the requirement to follow up on outstanding payments.

Recommendation

5. Follow up on all checks that have been outstanding for more than 60 days, as required.

Audit Scope and Methodology

The objectives of our audit were to determine if James Madison officials properly managed and administered the school's General School Funds accounts and if monies from those accounts were properly accounted for and spent for the benefit of students. Our audit period covered the months from July 2009 through June 2010.

To accomplish our objectives, we reviewed the Department's Procedures and James Madison's GSF expenditures and collections. We also interviewed Department and James Madison officials. In our review of James Madison's GSF expenditures, we examined a judgmental sample of high-risk payments to determine whether all transactions were student-related, properly supported, and authorized. In our review of the school's GSF cash collection practices, we observed and evaluated procedures in place at the school's Gym Store and faculty Café to determine whether adequate cash collection procedures were in place and being adhered to. In addition, we reviewed the recordkeeping practices to determine whether the school maintained accurate and complete cash journals, 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 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 and recommendations, although they felt certain expenses which we cited 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 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 reason why.

Contributors to This Report

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Vision

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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



Department of
Education

Dennis M. Walcott, Chancellor

Office of School Support

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May 17, 2012

Mr. John Buyce
Audit Director
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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
James Madison High School's Management of General School Funds
Report 2011-N-1

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 James Madison 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 year, School officials have already implemented a number of the audit recommendations in order to improve accountability over GSF procedures and the operations of the gym store and faculty cafe. The Assistant Principal of Organization (APO) monitors the GSF and works with the GSF treasurer to make certain that staff members responsible for various teams and clubs are aware of the relevant Chancellor's Regulations and Standard Operating Procedures (SOP). Authorization forms are being reviewed for proper completion and approvals. Collections of funds are documented; cash is secured as collected and transmitted to the treasurer within a day. The treasurer is following up on all checks outstanding for more than 60 days. Required documentation for the various GSF activities and accounts are being maintained as required. Internal control improvements to the School store operations included segregation of duties among operating personnel to limit the number of persons handling cash to only two individuals, as well as a perpetual inventory system to track store stock. On a daily basis, sales are recorded and inventory is checked. Next year, the School will be utilizing an online ordering system, further strengthening controls and reconciliation processes. Purchases will be made directly from the vendor and a check for the profit will be sent to the School treasurer. While School officials have decided to close the faculty café as of the end of this school year, they did implement internal control procedures to address deficiencies. Prices were raised to enable revenue to exceed expenses; a process was implemented to record and reconcile items sold to cash collected and all funds are turned over to the treasurer within a day. Teachers are no longer allowed to purchase items on credit and purchases made by the faculty adviser is supported by the original sales receipt and reimbursed accordingly.

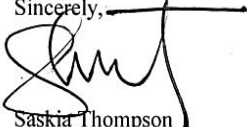
Regarding the recommendation to reimburse the GSF for \$3,605 in non-student related expenditures, School officials have already reimbursed \$739 from the School's tax levy budget for the encyclopedias, the teacher parking and the school cell phone to contact parents. They are also in the process of reimbursing the GSF an additional \$270 for the misplaced student cell phones. School officials are now utilizing their tax levy funds to pay for delivery of the Regents boxes. However, the Department respectfully disagrees that the remaining items identified in the report are inappropriate expenditures. 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. Teacher's Choice Programs funds, late/lost book fees, and uniform sales all belong within this category.

*
Comment

As part of the Teacher's Choice Program, teachers are allowed to pool any or all of their allocation to maximize their spending power so they can purchase supplies or instructional equipment necessary to the daily operations of a school, as well as support students' co-curricular and extra-curricular activities. Almost \$1,000 of Teacher's Choice funding was utilized to obtain Scantron test taking forms and classroom supplies, as well as lab supplies to support students' participation in a science competition, a co-curricular activity. Collections of over \$800 from lost or late book fees were used to replace lost textbooks and purchase additional books for the library from the PTA sponsored book fair.

Additionally, the School raised funds from the sale of athletic uniforms, of which almost \$220 was used to support the afterschool PSAL programs by purchasing items such as posters and poster hangers, locks and keys and hardware to secure the students' belongings during the program and to repair broken equipment used by those teams. The use of GSF for these items was in compliance with the Department's procedures. None of the above mentioned expenditures required Superintendent's approval, because they were raised and used for the purpose intended.

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 29, 2012, OAG will be providing internal controls training to the School's 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

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* See State Comptroller's Comment, page 14.

State Comptroller's Comment

We agree that it is acceptable to use the GSF account to accumulate for a specific purpose providing those funds are used only for the purpose for which they were collected. However, officials at James Madison could not provide evidence that limited purpose collections from Teacher's Choice funds, late/lost book fees, and uniform sales were actually used to fund these purchases. Absent the community superintendent's required approval or documentation clearly supporting the direct relationship between the limited purpose collections and the expenditures, we concluded that these costs should have been paid from tax levy and/or reimbursable school funds.