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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

January 16, 2014

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

Re: Management of General School
Funds
Report 2013-F-33

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, Section 33 of the General Municipal Law, we have followed up on the actions taken by officials of John F. Kennedy High School and the New York City Department of Education to implement the recommendations contained in our audit report, *Management of General School Funds* (Report 2009-N-2).

Background, Scope and Objectives

The New York City Department of Education's (Department) John F. Kennedy High School (Kennedy) is one of six separate high schools located on the John F. Kennedy Educational Campus in the Bronx. Kennedy maintained a general school fund (GSF) bank account in which to deposit monies collected for extracurricular and co-curricular activities, such as the senior trip, senior prom, and athletic events. During the 2012-13 school year, Kennedy had an enrollment of 384 students and disbursed a total of \$79,107 from its GSF account. Kennedy officials advised us that the school will be closing at the end of the 2013-14 school year.

Our initial audit report, which was issued on June 24, 2010, examined the financial management practices related to GSF monies to determine if such funds were managed and administered in accordance with Department guidelines, and if the Department had provided oversight of these funds. We found that the control environment was poor and that GSF monies were likely stolen. We also found that Kennedy's principal did not establish basic accountability for student funds and that the Department's GSF guidelines had been ignored. The objective of our follow-up was to assess the extent of implementation, as of December 12, 2013, of the eight recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

School officials have made limited progress in correcting the problems we identified in the initial report. However, improvements are still needed. Of the eight prior audit recommendations, two have been implemented, two have been partially implemented, and four have not been implemented.

Follow-Up Observations

Recommendation 1

Reimburse the GSF account for the cost of the retirement parties and classroom keys.

Status - Not Implemented

Agency Action - Department officials advised us that Kennedy's GSF account was not reimbursed for the cost of the retirement parties and classroom keys. Kennedy's principal stated that she could not take responsibility for past inappropriate expenditures that occurred prior to her appointment to the school by taking money from her operating budget to reimburse the GSF account.

Recommendation 2

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

Status - Not Implemented

Agency Action - We found that Department officials performed an independent review of a sample of the remaining expenditures from the GSF account for the audit scope period. The Department review identified two instances (out of nine sampled), totaling \$208, of inappropriate use of the GSF funds at the school. However, we found no evidence that the GSF account was reimbursed for these expenditures and the Department review was not expanded as a result of the additional problems identified.

Recommendation 3

Review the activities related to GSF accounts to ensure that:

- *all school purchases are directly related to students' extracurricular and co-curricular activities;*
- *all purchases are pre-approved by the principal; and*
- *school officials document the receipt of goods and services before payment.*

Status - Partially Implemented

Agency Action - In order to determine if there have been improvements in the controls over the GSF accounts, we reviewed a sample of 10 purchases made from October 2012 through August 2013. We found that one purchase for \$87 was not directly related to students' extracurricular or co-curricular activities. We also saw no evidence of principal pre-approval for that same expenditure. Finally, for six purchases totaling \$18,980, there were no signatures attesting that goods/services were received by the school. In addition, the independent review performed by the Department also found that there was no written indication to document the receipt for the nine purchases in their sample.

Recommendation 4

Monitor compliance with DoE procedures to ensure that Kennedy officials:

- *maintain a cash journal and perform monthly bank reconciliations; and*
- *use senior dues exclusively for senior activities.*

Status - Partially Implemented

Agency Action - As discussed in Recommendation 2, the Department performed a review of Kennedy's operations. However, the Department has not performed any additional monitoring since this review, and therefore needs to improve its monitoring of Kennedy's compliance with Department procedures. During our follow-up, we found that Kennedy officials maintained a cash journal; however, it contained errors. For example, we reviewed the cash journal entries for the period August 2012 through October 2013 and found that cash disbursements were sometimes added to the cash journal balance rather than being subtracted. Similarly, deposits were sometimes subtracted from the balance instead of being added. We also identified one disbursement for \$87 that had not been entered into the cash journal.

Although Kennedy officials performed bank reconciliations, we determined that they were not accurate. We reviewed a sample of two bank reconciliations and found that the reconciled bank statement balances did not agree with the balances indicated in Kennedy's checkbook. For example, the August 2012 bank reconciliation indicated that Kennedy's checkbook balance was \$57,594; however, Kennedy's actual checkbook balance indicated \$60,455 - a difference of \$2,861. In addition, our review of a sample of four purchases using senior dues found they were appropriately for senior activities.

Recommendation 5

Arrange for payment of the past due senior graduation expenses from DoE funds.

Status - Not Implemented

Agency Action - During our review, we found no evidence that Department officials arranged for the payment of past due senior graduation expenses.

Recommendation 6

Investigate the potential misuse of GSF funds.

Status - Implemented

Agency Action - Department officials notified the Special Commissioner of Investigations (SCI) for the New York City School District, who subsequently investigated the potential misuse of GSF funds. SCI completed its investigation in May 2010 and determined it would take no further action on this matter.

Recommendation 7

Establish financial management procedures for school stores that require at a minimum:

- *maintenance of school store inventory records; and*
- *reconciliation of cash register tapes to the money collected and maintenance of all cash register tapes.*

Status - Not Implemented

Agency Action - The Department has not yet established financial management procedures for school stores. We do note that, according to Kennedy officials, the school store closed at the end of the 2009-10 school year. We confirmed that the school store is not currently in operation.

Recommendation 8

Require that Kennedy:

- *notify DoE's Banking Unit when opening GSF accounts; and*
- *annually submit reconciled GSF account balances to DoE's Banking Unit by July 31.*

Status - Implemented

Agency Action - Kennedy officials notified the Department's Banking Unit when they opened up a new GSF account in October 2010. We determined that Kennedy officials did not submit the reconciled GSF account balances to the Department's Banking Unit by the required July 31, 2013 deadline. However, Department officials advised us that an alternate date had been established, with a new deadline of September 20 for the school year ended June 30, 2013. Kennedy officials submitted their reconciled GSF account balance on September 19, 2013.

Major contributors to this report were Stephen Lynch and Peter Blanchett.

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 High School and the New York City Department of Education for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Michael Solomon
Audit Manager

cc: Mary Coffey, DoE Deputy Auditor General
Maria Guzman, State Education Department