



# City of New York

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## OFFICE OF THE COMPTROLLER

Scott M. Stringer  
COMPTROLLER



## FINANCIAL AUDIT

**Marjorie Landa**

Deputy Comptroller for Audit

Audit Report on the Financial Practices  
of the Department of Education's  
District 2 General School Funds

FN19-124A

**March 1, 2021**

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK  
OFFICE OF THE COMPTROLLER  
SCOTT M. STRINGER

March 1, 2021

To the Residents of the City of New York:

My office has audited the New York City Department of Education (DOE) to determine whether the schools within School District 2 administered General School Funds (GSF) accounts in accordance with DOE's Standard Operating Procedure (SOP) and other related procedures. We audit entities such as DOE as a means of increasing accountability and ensuring that City resources are used effectively, efficiently and in the best interest of the public.

The audit found that a majority of schools located within School District 2 did not comply with the GSF SOP established for the administration of GSF accounts and/or the relevant Comptroller's Directives. DOE also lacked adequate oversight over the agency held bank accounts maintained by District 2 schools during the audit scope period. The noncompliance with established procedures by school officials and inadequate oversight by DOE that we found reduces accountability and places the funds the schools collected at increased risk of misappropriation and embezzlement.

The audit makes 15 recommendations to DOE. The recommendations include that DOE should ensure schools open and close all GSF bank accounts through DOE's Banking Unit and DOF; ensure that DOE's Banking Unit reports complete information concerning all schools' GSF bank accounts to the Comptroller's Bureau of Accountancy; conduct an internal audit of the account activities for the bank accounts that were not opened through DOE's Banking Unit or recorded in DOE's online Bank Account Survey; ensure that schools met all the signatory requirements; and ensure that school officials enforce segregation of duties in overseeing GSF account activities, handling cash receipts and disbursements, and record keeping.

The results of the audit have been discussed with DOE, and its comments have been considered in the preparation of this report. DOE's complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my Audit Bureau at [audit@comptroller.nyc.gov](mailto:audit@comptroller.nyc.gov).

Sincerely,

A handwritten signature in black ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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# THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

## Audit Report on the Financial Practices of the Department of Education's District 2 General School Funds

**FN19-124A**

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### EXECUTIVE SUMMARY

The New York City Department of Education (DOE) has established a Standard Operating Procedure (SOP) to provide minimum standards for the administration of General School Funds (GSF). GSF bank accounts are established by individual schools to ensure that accountability, fiscal integrity, and proper accounting procedures are in place for monies received from students, school organizations, student book sales, and other fundraising activities to support extracurricular and co-curricular student activities.

According to the GSF SOP, each school must:

- Establish a checking account to maintain the GSF monies collected;
- Comply with the New York City Department of Finance's (DOF's) requirements when opening and closing bank accounts;
- Assign at least three full-time DOE staff members as authorized signatories;<sup>1</sup>
- Assign a full-time DOE staff member, other than the school's principal, to be the treasurer of the GSF account;
- Maintain cash journal(s) that document GSF receipts and expenditures;
- Refrain from co-mingling Parent Association or Parent Teacher Association funds, sunshine funds, or personal funds with funds held in the GSF account;<sup>2</sup>
- Perform monthly bank reconciliations; and
- Report each account's reconciled balance (i.e., book balance), as of June 30th of each fiscal year, into DOE's online Bank Account Survey.<sup>3</sup>

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<sup>1</sup> The principal must be one of the authorized signatories, and the treasurer cannot be a signatory of the account.

<sup>2</sup> According to DOE, a sunshine fund is "an account funded by faculty and intended 'to bring a ray of sunshine into the lives of co-workers' for those special occasions such as retirement, birth of a baby, illness, or death of a loved one."

<sup>3</sup> DOE's online Bank Account Survey is its computer-based digital Financial Accounting Management Information System where school principals report reconciled year-end balances of GSF accounts.

In addition, schools are required to comply with NYC Comptroller's directives, including Directive #1 – *Principles of Internal Control*, Directive #11 – *Cash Accountability and Control*, and Directive #27 – *Fiduciary Accounts – Procedures for Requesting, Controlling and Monitoring*.

DOE's School District 2, comprising 118 schools, reported \$3.6 million and \$3.2 million held in GSF accounts as of June 30, 2018 and 2019, respectively.

In this audit, we determined whether the schools within School District 2 administered GSF accounts in accordance with DOE's SOP and with the relevant Comptroller's Directives.

## Audit Findings and Conclusions

We found that a majority of schools located within School District 2 did not comply with DOE's SOP for the administration of GSF accounts and/or the relevant Comptroller's Directives. Based on our review of the documentation that DOE provided and the survey responses we received from 98 schools, we found that 76 schools had at least one noncompliance issue involving 100 GSF bank accounts.

Additionally, we found that DOE lacks adequate oversight over the 179 "agency held bank accounts" that District 2 schools maintained during our audit scope period, 7 of which were entirely unknown to DOE's Banking Unit prior to the audit. District 2 schools held these 179 bank accounts either as GSF accounts or as school lunch accounts during the period our audit covered.<sup>4</sup>

Noncompliance with established procedures by school officials and inadequate oversight by DOE reduces accountability and places the funds the schools collected at increased risk of misappropriation and embezzlement.

In another matter, it appears that one school is managing a bank account on behalf of the Parent Teacher Association (PTA). However, the management of such accounts is not under DOE's jurisdiction and using DOE's resources to manage these funds is an inappropriate use of resources.

## Audit Recommendations

To address these issues, we make 15 recommendations, including that DOE should:

- Ensure that schools open and close all GSF bank accounts through DOE's Banking Unit and DOF, and that they provide DOE's Banking Unit with the June 30th balance that DOE needs to complete its listing of all such accounts with the Comptroller's Office under Comptroller's Directive #27.
- Ensure that DOE's Banking Unit reports complete information concerning all schools' GSF bank accounts to the Comptroller's Bureau of Accountancy (BOA) as required by Comptroller's Directive #27.
- Conduct an internal audit of the account activities for the seven GSF bank accounts that were not opened through DOE's Banking Unit or recorded in DOE's online Bank Account Survey to determine whether the school officials properly administered the GSF accounts

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<sup>4</sup> Agency held bank accounts are bank accounts opened by a City agency under the City's name using the City's tax identification number. These bank accounts can contain assets that the agency holds in a purely custodial capacity for the benefit of individuals, private organizations or other non-City government entities. Bank accounts for GSF and school lunch monies are classified as agency held bank accounts.

in other respects and the extent to which they complied with other provisions of the GSF SOP.

- Ensure that schools meet all the signatory requirements, including 1) the designation of a minimum of three full-time staff members as signatories for each GSF bank account, one of whom must be the principal, and none of whom can be the treasurer; and 2) dual signatures on each check.
- Ensure that school officials enforce segregation of duties in overseeing GSF account activities, handling cash receipts and disbursements, and record keeping.

## Agency Response

In its response, DOE generally agreed with 13 of 15 recommendations; partially agreed with 1 recommendation, disagreeing with 1 part of it, which concerns closing dormant bank accounts; and disagreed with 1 recommendation, specifically, that DOE conduct an internal audit of GSF bank accounts that were not properly administered. In response to that recommendation, DOE stated that it disagreed with our finding that seven specific GSF bank accounts “were not opened through the DOE’s Banking Unit or recorded in the Bank Account Survey.” In particular, DOE asserted that two of the seven accounts were opened outside the audit scope period, without disputing the substance of the finding, and that school staff had misidentified two other accounts. However, DOE provided no documentation to support either of those assertions. DOE further stated, “Given constraints on DOE resources due to the COVID-19 pandemic, the DOE cannot commit to doing audits of these accounts at this time.” After carefully considering DOE’s response, we find no basis to change any of our findings or recommendations.

# AUDIT REPORT

## Background

DOE has established an SOP to provide minimum standards for the administration of GSF. GSF bank accounts are established by individual schools to ensure that accountability, fiscal integrity, and proper accounting procedures are in place for monies received from students, school organizations, student book sales, and other fundraising activities to support extracurricular and co-curricular student activities, such as senior year activities, proms, and yearbooks.

According to the GSF SOP, each school must:

- Establish a checking account to maintain the GSF monies collected;
- Comply with DOF's requirements including: 1) processing the opening and closing of bank accounts through DOF; 2) selecting banks from DOF's list of approved banks (also known as New York City Designated Banks);<sup>5</sup> and 3) establishing the bank accounts using the City's taxpayer identification number;
- Assign at least three full-time DOE staff members as authorized signatories;
- Assign a full-time DOE staff member, other than the school's principal, to be the treasurer of the GSF account;
- Maintain cash journal(s) that document GSF receipts and expenditures;
- Refrain from co-mingling Parent Association or Parent Teacher Association funds, sunshine funds, or personal funds with funds held in the GSF account;
- Perform monthly bank reconciliations; and
- Report each account's reconciled balance (i.e., book balance), as of June 30th of each fiscal year, into DOE's online Bank Account Survey.

In addition, schools are required to comply with NYC Comptroller's Directives, including the following three:

- Directive #1, *Principles of Internal Control*, which outlines the principles of a sound and effective financial control system that should be adopted by the City and its agencies' management and staff;
- Directive #11, *Cash Accountability and Control*, which governs the basic internal controls and accountability requirements for establishing bank accounts, recording receipts and disbursements, and the reconciliation of all cash or cash equivalents; and
- Directive #27, *Fiduciary Accounts – Procedures for Requesting, Controlling and Monitoring*, which provides guidance for the overall accountability and control of these funds.<sup>6</sup>

DOE's annual financial statements for fiscal year ended June 30, 2019 show that DOE had approximately 1,900 GSF accounts. The total fund balances of these accounts were \$35 million

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<sup>5</sup> According to DOF's *Bank Account Policy and Procedures*, "Bank accounts can be opened and maintained only with a financial institution that has established/contracted a City banking relationships [sic] and is a NYC Designated Bank approved by the New York City Banking Commission."

<sup>6</sup> Fiduciary funds are financial resources that are held and administered in a trust or agency capacity by the City of New York.

and \$35.2 million as of June 30, 2018 and 2019, respectively. School District 2, located in the borough of Manhattan, has 118 schools and is the largest among New York City's 32 school districts. Per DOE's records, schools within School District 2 reported \$3.6 million and \$3.2 million held in GSF accounts as of June 30, 2018 and 2019, respectively.

## Objective

The objective of this audit was to determine whether the schools within School District 2 administered GSF accounts in accordance with DOE's SOP and other related procedures.

## Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

This audit covered the period of July 1, 2017 through June 30, 2019. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures and tests conducted.

## Discussion of Audit Results

The matters covered in this report were discussed with DOE officials during and at the conclusion of this audit. A preliminary draft report was sent to DOE and discussed with DOE officials at an exit conference held on October 7, 2020. On December 7, 2020, we submitted a draft report to DOE with a request for comments. We received DOE's written response on December 21, 2020.

In its response, DOE generally agreed with 13 of 15 recommendations, partially agreed with 1 recommendation, (#10), and disagreed with 1 recommendation, (#3). DOE also stated that many of the audit's recommendations now align with its current practices since it instituted a new system in Fiscal Year 2020 that, according to DOE, provides greater assurance that schools with their GSF bank accounts are properly following established policies. Because DOE implemented that new system after our audit scope period, we have not audited DOE's practices that involve its use and therefore express no opinion on its effect, if any, on the issues this audit identified.

DOE partially agreed with Recommendation #10, disagreeing specifically with the recommendation to close dormant bank accounts, notwithstanding the fact that DOE's Bank Account Policy "urges" City agencies to do so. In addition, although DOE argues that "six months dormancy isn't unusual" for schools, DOE's SOP for GSF accounts does not contain any guidelines or procedures for the review and closing of dormant bank accounts, including when they should be considered dormant. At a minimum, DOE should provide such guidance to school officials.

Additionally, DOE disagreed with Recommendation #3 that the agency should conduct an internal audit of seven GSF bank accounts that were not opened through DOE's Banking Unit or recorded in DOE's online Bank Account Survey. Specifically, DOE asserted that two of the seven accounts were opened outside the audit scope period, without disputing the substance of the finding, and that school staff had misidentified two other accounts. However, DOE provided no documentation



to support either of those assertions. DOE added that it “continues to work with the schools to bring the remaining accounts into compliance.” After carefully considering DOE’s response, we find no basis to change any of our findings or recommendations.

The full text of DOE’s response is included as an addendum to this report.

## FINDINGS AND RECOMMENDATIONS

A majority of schools located within School District 2 did not comply with the GSF SOP established for the administration of GSF accounts and/or the relevant Comptroller's Directives. Based on our review of the documentation that DOE provided and the survey responses we received from 98 schools regarding 138 GSF bank accounts, we found that 76 schools had at least one noncompliance issue involving 100 GSF bank accounts.<sup>7</sup> Among other things, we found that:

- 31 schools maintained 41 accounts that, as of June 30, 2019, collectively held at least \$677,000 for which one or more of the following offices—DOE's Banking Unit, DOF, and/or the Comptroller's Office BOA—had no records, resulting in diminished oversight and/or transparency of the schools' accounts;
- 52 schools with 63 accounts did not meet the signatory requirements;
- 3 schools opened 3 accounts with banks not found on DOF's list of Designated Banks;
- 1 school opened 2 savings accounts as opposed to checking accounts;
- 4 schools had principals who were also the treasurers of 5 accounts; and
- 2 schools did not reconcile 3 accounts between them, and 3 additional schools did not properly reconcile 1 GSF account each.

See Appendix I for all School District 2 GSF noncompliance issues and Appendix II for the list of 20 schools that did not respond to our survey and the 14 schools that did not confirm at least one account found on the internal bank account listing provided by DOE.

Additionally, we found that DOE lacks adequate oversight over the 179 agency held bank accounts that District 2 schools maintained during our audit scope period, 7 of which were entirely unknown to DOE's Banking Unit prior to the audit. District 2 schools held these 179 bank accounts either as GSF accounts or school lunch accounts during the period our audit covered. DOE did not ensure that it and its schools complied with its own and other applicable City requirements for these accounts in the following respects:

- DOE did not ensure that all bank accounts were registered with DOF as required by DOF's *Bank Account Policy and Procedures*.
- DOE did not ensure that it provided a complete listing of its agency held bank accounts to BOA as required by Comptroller's Directive #27.
- DOE did not ensure that the information it maintained in its online Bank Account Survey was up to date.
- DOE did not ensure that its schools closed obsolete lunch accounts as DOE directed and as DOF policy urges for all dormant agency-held accounts.
- DOE did not ensure that the schools it permanently closed promptly closed and transferred the funds in the bank accounts they held.

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<sup>7</sup> We sent a survey to all 118 schools to obtain basic GSF account information, such as the number of accounts the school maintained, the bank name(s), the last 4-digits of each bank account, the purpose(s) of the account, and the names of the authorized signatories and treasurers.

- DOE did not ensure that the books and records for GSF accounts were transferred to the appropriate administrators when a school's administration changed.
- DOE did not ensure that schools properly reconciled their GSF bank accounts.

The abovementioned instances of noncompliance with established procedures by school officials and inadequate oversight by DOE reduces accountability and places the funds the schools collected at increased risk of misappropriation and embezzlement.

In another matter, it appears that one school is managing a bank account on behalf of the PTA. However, the management of such accounts is not under DOE's jurisdiction, and using DOE's resources to manage these funds is an inappropriate use of resources.

These matters are further discussed in the following sections of this report.

## Some District 2 Schools Did Not Properly Administer GSF Bank Accounts

Seventy-six District 2 schools did not comply with one or more requirements of the GSF SOP, DOF's *Bank Account Policy and Procedures*, and/or the Comptroller's Directives when administering GSF bank accounts. The GSF SOP and the Comptroller's Directives provide guidance on how schools should establish internal controls to safeguard and prevent misappropriation of funds collected for extracurricular and co-curricular student activities. However, based on the documentation we reviewed and the responses we received from 98 schools, we found that the 76 schools held 100 GSF bank accounts that were noncompliant with the abovementioned SOP and directives in one or more of the following respects: 1) schools did not properly open bank accounts through DOE's Banking Unit and DOF, and DOE did not report all bank accounts to BOA at the end of the fiscal year; 2) numerous schools did not comply with signatory requirements; 3) several schools maintained the wrong kinds of accounts or maintained accounts at non-designated financial institutions; and 4) several schools did not implement adequate segregation of duties or perform proper and accurate bank account reconciliations. In particular, we found the following:

- DOE's Banking Unit, DOF, and/or BOA had no records of 41 bank accounts holding at least \$677,000 as of June 30, 2019 maintained by 31 schools. Of these 41 accounts, we found:
  - 27 accounts were not listed in DOF's Bank Account Information System (BAIS);
  - 22 accounts were not reported to BOA during the mandated year-end closing procedures; and
  - 7 accounts were not listed in DOF's BAIS, nor were they included in DOE's online Bank Account Survey, or reported to BOA. As a result, *none* of the 3 oversight offices that should have been aware of the 7 accounts—DOE's Banking Unit, DOF and BOA—would have had a record of them.

Section 5.3 of the GSF SOP states, "The opening and closing of all City bank accounts must be processed through the NYCDOF." Schools are required to send a Bank Account Request Form along with a justification letter to DOE's Banking Unit for review, and, if it deems them sufficient, DOE's Banking Unit is supposed to forward the materials to DOF so that DOF can open the account on behalf of the school. DOF notifies both the school and DOE's Banking Unit when the new account is active. Upon notification, the principal

is responsible for entering the new account information into DOE's online Bank Account Survey. After the bank account is open, DOF is supposed to maintain all bank account information in BAIS. Further, DOF's *Bank Account Policy and Procedures* states that DOF will forward all agency held bank accounts it approves to the Comptroller's Office for registration. Comptroller's Directive #27, in turn, requires the agencies that hold such accounts to report specific information concerning them to BOA at the end of each fiscal year.

Had the schools opened bank accounts in accordance with the GSF SOP and DOF's policies and procedures, the bank account information would have appeared in the systems maintained by DOE, DOF, and BOA. However, when we compared DOE's online Bank Account Survey, DOF's BAIS, and BOA's records, we found that 41 GSF bank accounts were missing from one or more of those listings. As a result, DOE, DOF, and/or BOA were unaware of the existence of many of these bank accounts, and the year-end balances for at least seven accounts—missing from all three sets of records—were not reported in DOE's or the City's financial statements in Fiscal Year 2019.<sup>8</sup>

After the exit conference, DOE officials stated that the Banking Unit was aware of 2 of the 7 accounts identified by the audit as being unknown, claiming that the account numbers listed in the Bank Account Survey were bank routing numbers, not account numbers. However, DOE was unable to provide supporting documentation to substantiate the claim.

- Fifty-two schools, with 63 GSF bank accounts, did not meet the GSF SOP signatory requirements. Section 5 of the GSF SOP states that: 1) the principal must identify at least two other people—in addition to the principal—to act as account signatories (a minimum of three account signatories are required); 2) the treasurer cannot be one of the authorized signatories; and 3) there must be at least two signatures on each check. Table I below shows the problems that we identified with the 52 schools' GSF account signatories.

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<sup>8</sup> We were unable to determine the actual balances in these accounts because we were unable to obtain records from the schools due to school closures during the COVID-19 pandemic.

**Table I**

Noncompliance with Signatory  
Requirements at 52 Schools

<b>Signatory Noncompliance</b>	<b>Number of Schools*</b>	<b>Number of GSF Bank Accounts</b>
Less than 3 signatories	41	47
Principal is not one of the signatories	14	19
Treasurer is one of the signatories	8	9
Account had only one signatory therefore was unable to meet dual signature requirement	2	2

\* Twelve schools were noncompliant with more than one signatory requirement.

- Three schools maintained funds in three GSF bank accounts at banks that DOF had not approved or “designated.” According to the GSF SOP, Section 5.3, Bank Account Procedures, “Banks must be selected from the NYCDOF’s list of approved banks.” DOF’s *Bank Account Policy and Procedures* also states that “City bank accounts may be held **only** [emphasis added] with NYC Designated Banks approved by the New York City Banking Commission.”
- One school maintained two savings accounts as opposed to checking accounts, which is the only kind of account permitted by the GSF SOP. Section 2.3, Regulations Governing Checking Accounts, states, “General school funds and other cash must be processed through a checking account at a New York City Department of Finance approved institution offering checking account services.”
- Four schools maintained five bank accounts for which the principal acted as the account treasurer. According to the GSF SOP, Section 1.1, the treasurer must be a “full-time regular staff member of a school selected by the principal . . . to manage the general school fund account.” Since the principal is responsible for overseeing the account activities and must be one of the authorized signatories, the principal cannot be the treasurer. Comptroller’s Directive #11 also states, “[a]n adequately managed and satisfactory cash receipts and disbursements system demands a distinct segregation of the major administrative duties involved within the various cash handling processes.”

In addition, for 5 of the 98 schools that responded to our survey, the principals did not identify treasurers for six GSF bank accounts; that omission effectively left the question of who is responsible for managing—specifically, maintaining the books and records for—these six GSF bank accounts unanswered. Leaving this question unanswered raises concerns of the adequacy of segregation of duties and accountability with respect to those accounts and the funds they contain.

- Two schools did not reconcile the bank statements for three separate GSF bank accounts between them as required by Section 5.11 of the GSF SOP, which states that schools are required to reconcile the bank statements monthly. Further, based on our review of the bank reconciliation statements provided, three schools did not properly reconcile one GSF bank account each.

DOE's and its individual District 2 schools' lack of compliance with internal controls and reporting requirements set forth by DOE, DOF, and the Comptroller's Office reduces the accountability of the funds collected, increases the likelihood of misappropriation or embezzlement of funds, and jeopardizes the accurate reporting of cash and fiduciary fund amounts in DOE's and the City's financial statements.

## **DOE Lacks Sufficient Oversight over Agency Held Bank Accounts**

DOE does not have sufficient oversight over agency held bank accounts. According to Comptroller's Directive #1,

A sound internal control system must be supported by ongoing activity monitoring occurring at various organizational levels and in the course of normal operations. Such monitoring should be performed continually and be ingrained throughout an agency's operations. It should include appropriate measurements on regular management and supervisory activities, comparisons, reconciliations, and other actions taken by employees in performing their duties. Agency management must perform continual monitoring of activities and programs.

However, we found that DOE does not have written review procedures to ensure that schools comply with the policies and procedures for maintaining agency held bank accounts. Specifically, DOE did not ensure that the information it maintained in its online Bank Account Survey was accurate, that fund balances for bank accounts associated with permanently closed schools were properly accounted for and promptly transferred to other schools, that books and records were properly maintained, and that school officials understood how to reconcile bank accounts. Based on our review of bank account information on the documentation provided, we found multiple deficiencies, including the following:

- DOE did not register 27 bank accounts with DOF as required by DOF's *Bank Account Policy and Procedures*. According to DOE officials, if a school does not open a bank account through DOF as required, DOE will assist the school in its registration of the bank account with DOF. However, although the schools had registered 20 of the 27 accounts with DOE's Banking Unit, DOE provided no evidence that it had attempted to register them with DOF. (The seven remaining accounts were unknown to DOE's Banking Unit.) Registering City bank accounts, such as GSF bank accounts, with DOF is one of a number of control measures intended to minimize the risk of financial loss and unnecessary bank fees and to help ensure that all City bank accounts are also registered as required with the Comptroller's Office, specifically, BOA.

After the exit conference, DOE officials stated that the Banking Unit was aware of 2 of the 7 accounts identified by the audit as being unknown, claiming that the account numbers listed in the Bank Account Survey were bank routing numbers, not account numbers. However, DOE was unable to provide supporting documentation to substantiate the claim.

- DOE did not provide a complete listing of its agency held bank accounts to BOA as required by Comptroller’s Directive #27, Section 7.0, which requires agencies to provide a listing of all agency bank accounts and include the following information:
  - Name of reporting agency;
  - Type of financial asset;
  - Purpose for which asset is being held;
  - Source of asset funds;
  - Asset dollar value as of June 30 of the current fiscal year, as well as total receipts and total disbursements for the fiscal year then ended;
  - Location of asset, including specifically the identity of the bank or financial institution,
  - Name and number of each account maintained at a bank or financial institution; and
  - An explanation, if applicable, as to why this account is not included in the City’s Financial Statements.

However, DOE omitted at least 22 active agency held bank accounts from DOE’s reports to BOA for Fiscal Years 2018 and 2019, including 7 accounts that the District 2 schools failed to report to DOE’s Banking Unit. Considering that DOE reported approximately 1,900 GSF accounts in its Fiscal Year 2019 financial statements, and that we reviewed only 179 accounts—the equivalent of 9.4 percent of DOE’s reported GSF accounts—DOE’s failure to list 22 (12.3 percent) of the accounts we reviewed with BOA raises a concern that DOE may have failed to report more accounts and their asset dollar values to BOA. Although the sums may be immaterial to the City’s financial statements, DOE is required to report all agency held bank accounts to BOA to enable adequate oversight of DOE’s agency held bank accounts as required by Comptroller’s Directive #27. The lack of oversight of these bank accounts can lead to an increased risk of fraud, waste, and inappropriate expenditures.

DOE did not ensure that the information maintained in its online Bank Account Survey was up to date. Specifically, the reported balances for 10 bank accounts had not been updated for at least a year, and the date of the last update was not provided for four other bank accounts with reported balances of zero. Some of these 14 accounts belonged to schools that have been permanently closed for years. Additionally, one school held funds in Asia Bank, which was absorbed in 2015 by Cathay Bank; however, DOE’s Bank Account Survey was never updated to reflect the changes to the bank name and account number. Although school principals are individually responsible for providing updated balances at the end of each fiscal year, it remains DOE’s responsibility to ensure that the information in its online survey is accurate and current.

- DOE did not ensure that schools closed obsolete lunch accounts. In our review of the bank account information DOE maintained in BAIS, we found that, as of June 30, 2019, schools within School District 2 were maintaining 13 active but obsolete school lunch accounts. During the previous school year (2017-2018), the City commenced its “Universal Free Lunch Program” for public schools, allowing all public school students to receive free lunch. Therefore, students were no longer required to pay for lunch, and schools were no longer required to maintain bank accounts for the lunch money collected from students. Accordingly, on May 8, 2018, DOE, via a newsletter to principals known as “Principals’

Weekly” or “P-Weekly,” specifically instructed schools to close their lunch accounts by June 29, 2018 and reallocate the remaining funds to the Office of Food & Nutrition Services (OFNS).

DOF’s *Bank Account Policy and Procedures* urges agencies “to close inactive accounts after their useful purpose has expired.” However, contrary to that DOF policy and DOE’s instruction to principals, 13 lunch accounts remained open as of June 30, 2019. According to DOE’s records, the total balances of 11 of the 13 open lunch accounts was \$19,897 as of June 30, 2019.<sup>9</sup> Allowing these dormant agency held bank accounts to remain open may unnecessarily increase the City’s banking costs and the risk that the funds in the accounts may be misused or misappropriated.

- DOE did not ensure that six schools, upon permanent closure before June 30, 2018, promptly closed their GSF bank accounts and properly transferred the fund balances to other schools or to the holding account maintained by the Banking Unit. According to DOE’s School Closure Guide for 2017-18, immediately after the Panel for Education Policy approved the closings and DOE issued the formal closure announcement to staff, any bank accounts linked to those schools should have been closed by June of that school year, and the required documentation should have been sent to DOE’s Banking Unit and the Field Support Center’s closure liaison. However, we found that as of October 2019 eight GSF bank accounts associated with six schools that had permanently closed before June 30, 2018 were still listed with DOF as active and as belonging to those schools. It should be noted that DOE ultimately closed these eight accounts during Fiscal Year 2020 and transferred the remaining balances, if any, to the appropriate accounts.
- DOE did not ensure that school officials at one school properly transferred the books and records for a GSF account to the staff who took over the school’s administration. Based on an email response from the school, the prior principal and treasurer did not hand over the books and records of the GSF bank account that the school’s previous administration maintained. As a result, the school’s current administration was unable to provide any documentation to us regarding that account, even though it is included in DOE, DOF, and BOA’s listings of agency held bank accounts.
- DOE did not ensure that schools understand how to reconcile bank balances. Based on our review of the bank reconciliation statements that 11 schools provided, we found that three schools did not properly reconcile their GSF bank accounts. We also found that one school carried a \$1,665 “outstanding deposit” dated September 2002 in its June 30, 2019 bank reconciliation without making an adjustment to write it off or otherwise address it. Typically, an outstanding deposit will be cleared in the next month. However, according to the treasurer of the account, this outstanding deposit “will always be there.” That response reflects the failure of school officials to understand the purpose and procedures related to bank reconciliations. Even though DOE conducted an audit of this particular school’s GSF accounts for Fiscal Year 2015 (July 1, 2014 through June 30, 2015), it did not recommend that the school officials write off this amount or investigate it further to determine its accuracy.

Even though DOE performs internal audits on GSF accounts annually, it solely focuses on the schools whose GSF bank accounts have the largest year-end reported balances. As a result, most GSF accounts may never be selected for internal review. Without proper monitoring procedures to ensure DOE officials comply with the established policies and procedures, DOE is

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<sup>9</sup> DOE’s records did not have June 30, 2019 reconciled balances for the remaining two accounts.



unable to account for how these funds are used and risks increased susceptibility to loss or theft of funds.

## **Other Matter**

### **One School Appears to Be Inappropriately Managing a PTA Account**

It appears that The James Baldwin School was managing a savings account on behalf of the PTA. We found that this account is listed on DOE's Bank Account Survey and that a year-end account balance of \$1,541 was reported to BOA for Fiscal Year 2019. The principal responded to our survey stating the purpose of the account was for "student activities; school/PTA discretionary expenses." Upon further inquiry, DOE officials stated that this account is not using the City's tax identification number and is therefore "outside of DOE jurisdiction." However, DOE officials were unable to provide supporting documentation to verify this statement.

Regardless of whether or not this account is a PTA account, the school officials did not handle or administer it properly. If this account is a PTA account, school officials are inappropriately using and thereby wasting the DOE's resources to manage an account which DOE has no jurisdiction over. In addition, DOE should not include it in its Bank Account Survey or report the bank balance to its Banking Unit at the end of the fiscal year. If this account is a GSF account, the school should not be using a savings account to maintain GSF monies, should not designate any fewer than three full-time school staff as signatories for the account, and should not use the account for PTA discretionary funds.

## Recommendations

DOE should:

1. Ensure that schools open and close all GSF bank accounts through DOE's Banking Unit and DOF, and that they provide DOE's Banking Unit with the June 30th balance that DOE needs to complete its listing of all such accounts with the Comptroller's Office under Comptroller's Directive #27.

**DOE Response:** "The DOE agrees with the recommendation as it aligns with our current practices. . . . To reinforce these practices, the DOE plans to revise the InfoHub (*i.e.*, school-facing website), School Banking Training Guide, and Standard Operating Procedures Manual (SOPM) by the close of the 2020-2021 school year. The DOE will also align future trainings with these materials."

**Auditor Comment:** DOE should ensure that its revised system and training materials reinforce its policy that GSF bank accounts must be opened, maintained, reported, and closed properly.

2. Ensure that DOE's Banking Unit reports complete information concerning all schools' GSF bank accounts to BOA as required by Comptroller's Directive #27.

**DOE Response:** "The DOE agrees with the recommendation as it aligns with our current practices."

**Auditor Comment:** We are pleased that DOE agrees with the recommendation and states that it aligns with their current practice. However, DOE does not detail what its current practice includes as it relates to the requirements of Comptroller's Directive #27. The directive includes particular reporting requirements for active and inactive accounts and DOE should ensure that its Banking Unit reports complete information concerning all schools' GSF bank accounts, *including dormant accounts* that DOE deems necessary to maintain, to BOA and close bank accounts that are no longer necessary and no longer legally required.

3. Conduct an internal audit of the account activities for the seven GSF bank accounts that were not opened through DOE's Banking Unit or recorded in DOE's online Bank Account Survey to determine whether the school officials properly administered the GSF accounts in other respects and the extent to which they complied with other provisions of the GSF SOP.

**DOE Response:** "The DOE cannot agree to the recommendation as written and provides the following clarification. The DOE disagrees with the Comptroller's statement that all seven GSF bank accounts were not opened through the DOE's Banking Unit or recorded in the Bank Account Survey. Two accounts were opened in FY20, outside the scope of this audit period; and two account numbers were misreported to the audit team by the school, while the correct account number was on file with the DOE's Banking Unit and was therefore recorded accurately by the DOE. The DOE continues to work with the schools to bring the remaining [three] accounts into compliance.

Given constraints on DOE resources due to the COVID-19 pandemic, the DOE cannot commit to doing audits of these accounts at this time. However, the Office of Auditor General's (OAG) Internal Control Officers will work with the Banking Team to

determine which schools would benefit from a process review of bank account management and will reach out to schools to set up those reviews. Finally, the DOE's Mandated School Audit includes an audit section for General School Funds. This audit is conducted annually."

**Auditor Comment:** Although DOE asserts that four of the seven GSF bank accounts the audit identifies as improperly administered should not be counted as such, DOE's inability to provide copies of account opening documents to support its assertion that two accounts were opened outside of the audit scope period diminishes the creditability of its claim. Further, DOE was unable to provide documentation such as bank statements or canceled checks to support that the two account numbers were misreported by schools. For the remaining three accounts, DOE did not contend that these accounts were cited in the report erroneously.

In addition, while we are pleased that OAG will work with the Banking Team to identify schools that would benefit from its review and that DOE includes some GSF accounts in its annual Mandated School Audit, we continue to recommend that DOE conduct an internal audit of account activities for these seven high-risk accounts we identified to ensure that the school officials responsible for the accounts comply with DOE's policies and procedures.

4. Ensure that schools meet all the signatory requirements, including 1) the designation of a minimum of three full-time staff members as signatories for each GSF bank account, one of whom must be the principal, and none of whom can be the treasurer; and 2) dual signatures on each check.

**DOE Response:** "The DOE agrees with this recommendation as it aligns with the current practice. The DOE has already modified its School Banking System to incorporate signatory requirements, including a minimum of three full-time staff members as signatories for each GSF bank account, one of whom must be the principal, and none of whom can be the treasurer. To reinforce the practice of dual signatures on checks, the DOE plans to revise and strengthen school-facing resources and training by the close of the 2020-2021 school year."

**Auditor Comment:** We are pleased that DOE has modified its School Banking System and reinforced its practices to ensure that the signature requirements are met.

5. Ensure that all accounts opened for the purpose of maintaining GSF monies are checking accounts.

**DOE Response:** "The DOE agrees with this recommendation as it aligns with the current practice. The DOE is consolidating school bank accounts into one account per school, in turn necessitating that the school's one account be a checking account."

**Auditor Comment:** We are pleased that DOE is consolidating school bank accounts into one checking account per school. We urge DOE to ensure that all new bank accounts opened are checking accounts.

6. Close all checking accounts with non-Designated Banks and all savings accounts and ensure that the funds in them are properly transferred to appropriate accounts maintained in approved institutions.

**DOE Response:** "The DOE agrees with this recommendation as it aligns with the current practice. The Banking Team has designed and implemented tools to flag accounts with non-Designated banks and has trained and reallocated internal staff to increase support of schools in bringing their accounts into compliance."

**Auditor Comment:** We are pleased that DOE has implemented tools to ensure that schools bring their accounts into compliance.

7. Ensure that school officials enforce segregation of duties in overseeing GSF account activities, handling cash receipts and disbursements, and record keeping.

**DOE Response:** “The DOE agrees with this recommendation. By the close of the 2020-2021 school year, the DOE plans to revise the school-facing SOPM so that GSF account activities are clearly segregated by role.”

8. Ensure that school officials reconcile GSF bank accounts monthly and are trained on how to perform accurate reconciliations.

**DOE Response:** “The DOE agrees with this recommendation. By the close of the 2020-2021 school year, the DOE plans to revise the school-facing Bank Reconciliation Template as well as provide a corresponding User Guide. Furthermore, the School Bank Account System can now identify when a Treasurer is no longer active at a school, in turn identifying when a new staff person needs training. The DOE will also provide training resources for schools on how to perform monthly bank reconciliations.”

9. Follow up with the schools that did not respond to our survey or did not confirm a specific account to determine whether these schools 1) reported all the GSF bank accounts; and 2) complied with the GSF SOP when administering GSF monies collected.

**DOE Response:** “The DOE agrees with this recommendation. The DOE will follow up with the schools that did not respond to the Comptroller’s audit survey or did not confirm a specific account to determine whether these schools reported all the GSF bank accounts. By the end of the 2020-2021 school year, the DOE will train these schools on the GSF SOPM.”

10. Establish year-end review procedures, including but not limited to,
  - a. reviewing GSF bank accounts to ensure accounts open with non-Designated Banks are properly closed;
  - b. following up with schools about accounts that have not been updated; and
  - c. ensuring dormant bank accounts are closed and the remaining funds are reallocated to the appropriate accounts.

**DOE Response:** “The DOE partially agrees with this recommendation. The DOE has already designed and implemented a tool that reviews GSF bank accounts to ensure accounts open with non-Designated Banks are properly closed and account officials are updated. . . . The DOE also follows up with schools about accounts that have not been reported via the annual School Bank Account Report, and has already implemented a policy to freeze accounts that were not reported.

The DOE disagrees, however, with the recommendation to close dormant bank account [sic]. While the DOE agrees to expediently close accounts at closed schools, DOF defines a dormant account as one without banking activity for six months. Given the fundraising and expenditure cycle of schools, six months dormancy isn’t unusual. . . . Instead, the DOE will allow a school to operate a dormant account provided the account is the only GSF account the school operates.”

**Auditor Comment:** Although DOE disagrees with the portion of this recommendation that involves closing dormant bank accounts, DOF’s Bank Account Policy “urges” City

agencies to do so. In this regard, DOE argues in effect that DOF's definition of a dormant account, based on six months without banking activity, should not apply to DOE because, DOE states, "six months dormancy isn't unusual" among its schools. We note, however, that DOE's SOP for GSF accounts lacks *any* guidelines and procedures for reviewing and determining whether and when an inactive bank account should be considered dormant and closed. At minimum, DOE should review and revise its procedures to provide guidance to school officials and DOE's Banking Unit regarding the proper administration and review of dormant accounts, including how long an account may remain open with no banking activity.

11. Establish procedures for school officials to properly transfer GSF bank account books and records to new school administrations when schools are closing or undergoing other changes that affect the purposes for which the accounts exist.

**DOE Response:** "The DOE agrees with this recommendation. The DOE will align the transfer of bank account records with its policy on the transfer of other financial records to new school administrations by amending the GSF SOPM."

12. Establish periodic training for school officials on how to administer and reconcile GSF accounts.

**DOE Response:** "The DOE agrees with this recommendation as it aligns with the current practice. The Banking Team provides periodic training for school officials . . . The School Bank Account System can now identify when account officials are no longer active at a school, in turn identifying when a new staff person needs training. By fall of 2021, the DOE plans to offer targeted training to these schools."

**Auditor Comment:** We are pleased that DOE's new system can identify when new staff needs training and will allow for targeted training in schools.

13. Consider changing its methodology on how to select schools for its internal review of GSF accounts to ensure broader coverage.

**DOE Response:** "The DOE agrees to take this recommendation under advisement. . . . selected audit [*sic*] are based on risk assessments and OAG does not believe it is prudent at this time to change its selection criteria."

**Auditor Comment:** Although this may not be the best time to change its methodology for selecting schools for review of GSF accounts, DOE should revisit this recommendation when staff return from working remotely after the COVID-19 pandemic.

14. Conduct a review of The James Baldwin School's bank accounts to ensure school officials are not administering bank accounts on behalf of the PTA.

**DOE Response:** "The DOE agrees with this recommendation. The DOE will conduct a review to ensure that the school is not administering bank accounts on behalf of its PTA. If it is, we will train the school in the GSF SOPM on the segregation of bank accounts."

15. Cease reporting the PTA account year-end balance to BOA.

**DOE Response:** "The DOE agrees with this recommendation as it aligns with the current practice. The DOE already excludes PTA accounts from BOA reports whenever such accounts are identified. Furthermore, requiring that schools consolidate into one bank account facilitates the identification of a PTA account that a school may mistakenly report in addition to its GSF."

**Auditor Comment:** Although consolidation of a school's bank accounts will help identify PTA accounts, DOE should be proactive to ensure that PTA account year-end balance is not reported to BOA.

## DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit covers Fiscal Years 2018 and 2019 (July 1, 2017 through June 30, 2019).

To obtain an understanding of DOE's policies and procedures regulating the administration of GSF accounts, we reviewed the Division of Financial Operations' SOP for GSF, Policy for Receipt of Gifts and Private (non-governmental) Grants, Regulation of the Chancellor: Fundraising Activities and Collection of Money from Students, the School Closure Guide for Fiscal Years 2017 and 2018, and the P-Weekly newsletters used to inform schools about changes made to the operations within DOE.

To obtain an understanding of DOE's operations and internal controls that are relevant to our audit and to help achieve our objectives, we interviewed DOE officials to gain an understanding of the policies and procedures in place regarding the administration and oversight of District 2 GSF bank accounts. Specifically, we conducted walkthrough interviews with the Deputy Auditor General, the Director of Banking, Collections, and Operational Accounting Policy, the Deputy Chief Financial Officer and Executive Director of the Division of Fiscal Operations, the Director, Compliance & Special Investigators, and the Director, Training, Process Improvement and School Support. We also reviewed Comptroller's Directive #1, *Principles of Internal Control*, and DOE's latest available Directive #1 Agency Financial Integrity Compliance Statement, Comptroller's Directive #11, *Cash Accountability and Control*, and Comptroller's Directive #27, *Fiduciary Accounts – Procedures for Requesting, Controlling and Monitoring*.

To determine the number of public schools within School District 2, we reviewed the latest School Quality Report available (School Year 2017-2018) on DOE's website and compared the School District 2 public schools identified with DOE's internal bank account listings for Fiscal Years 2018 and 2019. During the comparison, we also identified the closed schools that still have active bank accounts and accounts that were designated for school lunch monies. We then sent a survey to all 118 active schools to obtain basic GSF account information, including account number, the number of GSF accounts in possession, purpose of the accounts, and names of the authorized signatories and account treasurers. We received 98 responses from the schools, and we analyzed the schools' responses to determine whether the schools comply with the GSF SOP by:

- Reporting all GSF accounts to DOE's Central Office;
- Processing GSF monies through a checking account with a DOF Designated Bank;
- Having a minimum of three authorized signatories, one of whom must be the principal;
- Not allowing the treasurer to be one of the authorized signatories; and
- Not allowing the principal to be the treasurer.

To determine whether the schools performed bank reconciliations and accurately reported fund balances as of the end of the fiscal year, we requested the fiscal year-end bank reconciliations

from the five schools that reported the highest account balances as of June 30, 2019. Based on our review of the schools' responses, we requested reconciliations from an additional six schools that did not report at least one GSF bank account to DOE to provide bank statements and bank reconciliation statements for Fiscal Years 2018 and 2019. Based on the bank statements and bank reconciliation statements, we tried to determine the amount that was understated in DOE's financial statements and whether school officials properly reconciled the GSF accounts. To determine whether schools complied with the GSF SOP requirement of maintaining cash journals for GSF accounts, we judgmentally requested cash journals from the two schools that did not report at least one GSF account to DOE for our review.

To assess DOE's compliance with its internal GSF SOP and whether accounts were registered in compliance with DOF's bank account procedures, we obtained a bank account listing from DOF and BOA respectively. We compared the bank accounts on DOE's bank account listings to both the DOF and BOA lists and evaluated if all accounts were registered with both agencies.

To evaluate additions, closures, and changes made to GSF accounts, we obtained and reviewed DOE's Division of Financial Operations' Bank Account Maintenance Tracker.<sup>10</sup> Specifically, we evaluated if dormant accounts (accounts with no activity for more than six months) and school lunch accounts were requested to be closed or were closed. We also interviewed DOE Banking Unit officials and reviewed the bank account closing process to determine whether DOE took appropriate actions to close these bank accounts.

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<sup>10</sup>The Bank Account Maintenance Tracker is an internal spreadsheet maintained by the Division of Financial Operations at DOE to track the status of the requests submitted to DOF related to bank account requests, including opening, closing, registering, and changing signatories of bank accounts.



**List of Noncompliant Issues at District 2 Schools**

#	School's District Borough Number (DBN)	A/C # (Last 4 Digits)	A/C Not Aware by DOE/DOF/BOA	Signatory Issues				Saving A/C (S)/Non-Designated Bank (B)	Principal Is Treasurer	Bank Rec. Not Performed (NP)/Not Correctly Performed (NA)
				Less than 3 Signatories	Treasurer Is a Signatory	Principal Not a Signatory	Lack of Dual Signatures			
1	02M001	2927	DOF/BOA	2				B		
2	02M002	1889	DOF							
	02M002	8069		2						
3	02M003	3452		2						
	02M003	4218		2						
4	02M006	7371		2						
5	02M011	0278	DOF							
6	02M033	8605				X			X	
	02M033	5551				X			X	
7	02M040	1485		2		X				
	02M040	8463				X				
8	02M041	1764				X				
9	02M042	6822	DOF			X		B		
	02M042	8697				X				
10	02M047	5826	DOF							
11	02M059	9786		2						
12	02M077	5695	DOF							
	02M077	6065	DOF							
13	02M089	3418		2						
14	02M104	1667	DOF							
15	02M111	8759		1			X			
16	02M124	3989			X	X				
17	02M126	7050	DOF							
18	02M130	2125	DOF							
	02M130	9959	DOE/DOF/BOA							
19	02M131	8277	DOF				B			
20	02M151	7886		2						
21	02M158	1365		2	X	X				
22	02M167	1801		2						
23	02M183	3061		1			X	X		
24	02M198	8646		2						
25	02M212	2005				X				
	02M212	6048				X				
26	02M234	9455		2						
27	02M255	1088	DOE/DOF/BOA	2						

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#	School's District Borough Number (DBN)	A/C # (Last 4 Digits)	A/C Not Aware by DOE/DOF/BOA	Signatory Issues				Saving A/C (S)/Non-Designated Bank (B)	Principal Is Treasurer	Bank Rec. Not Performed (NP)/Not Correctly Performed (NA)
				Less than 3 Signatories	Treasurer Is a Signatory	Principal Not a Signatory	Lack of Dual Signatures			
28	02M260	5022	DOF	2						NP
	02M260	8571	DOE/DOF/BOA							
29	02M267	4128		2				X		
30	02M276	4288						X		
31	02M280	4235		2						
32	02M281	0182		2						
33	02M288	7301	BOA							
34	02M289	7398	BOA							
	02M289	9665	BOA							
35	02M294	6608		2						
36	02M298	4234		2		X				
37	02M300	5583		2						
	02M300	1840	DOF							
38	02M303	5354	DOF	2						
	02M303	2806	DOF	2						
39	02M305	8531			X					
40	02M305*	3949	BOA							
41	02M312	3366				X				
42	02M313	0784				X				
43	02M347	3379	DOF							
	02M347	6442		2		X				
	02M347	9192	DOF							
	02M347	9434	DOF	2		X				
44	02M392	2185			X					
45	02M393	4982								NA
	02M393	3594	BOA							
46	02M394	8234		2						
47	02M397	0731			X					
48	02M408	7516	DOE/DOF/BOA	2						NP
	02M408	7433	DOE/DOF/BOA	2						NP
49	02M412	5815		2						
50	02M413	8160	BOA							
51	02M414	0603		2	X					
	02M414	5199		2	X					
52	02M416	1828		2						
	02M416	4538		2						

PRELIMINARY DRAFT

APPENDIX I

#	School's District Borough Number (DBN)	A/C # (Last 4 Digits)	A/C Not Aware by DOE/DOF/BOA	Signatory Issues				Saving A/C (S)/Non-Designated Bank (B)	Principal Is Treasurer	Bank Rec. Not Performed (NP)/Not Correctly Performed (NA)
				Less than 3 Signatories	Treasurer Is a Signatory	Principal Not a Signatory	Lack of Dual Signatures			
	02M416	5747		2						
53	02M418	2333		2					NA	
54	02M425	2045	DOE/DOF/BOA							
55	02M437	0834		2						
56	02M438	7040		2						
57	02M440	5946	BOA							
58	02M460	6570	BOA							
	02M460	7912	BOA							
59	02M475	5828							NA	
	02M475	9196					S			
	02M475	0375					S			
60	02M489	6434		2		X				
61	02M500	2706		2	X					
62	02M507	6368		2						
63	02M527	7305		2		X				
64	02M533	5790		2						
65	02M542	3379	DOE/DOF/BOA							
66	02M544	0600	DOF							
67	02M546	2247			X					
68	02M570	8737		2						
69	02M575	8765		2						
70	02M580	3611		2						
71	02M586	2365	DOF							
72	02M605	7333	BOA							
73	02M625	6011	BOA							
	02M625	3365	BOA							
74	02M630	7302	BOA							
75	02M655	3984	BOA							
76	02M896	3634				X				
<b>Total</b>			<b>41</b>	<b>47</b>	<b>9</b>	<b>19</b>	<b>2</b>	<b>5</b>	<b>5</b>	<b>6</b>

\* Indicates a separate school that shares the DBN of another school.

**List of Bank Accounts That Remain Unconfirmed**

DBN	Number of Bank Accounts That Remain Unconfirmed
02M089*	1
02M114	1
02M135	1
02M217	1
02M255*	1
02M288*	1
02M288(closed)†	1
02M289	2
02M290	1
02M296	1
02M297	1
02M300*	1
02M340	1
02M343	1
02M347*	1
02M374*	1
02M393*	1
02M413	2
02M419	1
02M422	1
02M437*	1
02M439	1
02M442	1
02M460*	1
02M520	3
02M529	1
02M542*	1
02M543*	1
02M544	2
02M600	1
02M605	3
02M615	1
02M630*	1
02M655*	1
<b>34</b>	<b>41</b>

\* The school responded to our survey but did not confirm at least one bank account that was listed on the Bank Account Survey.

† Indicates a separate school which shares the DBN of another school.



December 21, 2020

Marjorie Landa  
Deputy Comptroller for Audit  
The City of New York  
Office of the Comptroller  
One Centre Street  
New York, NY 10007-2341

**Re: Audit Report on the Financial Practices of  
the Department of Education's District 2  
General School Funds (FN19-124A)**

Dear Ms. Landa:

This letter will serve as the New York City Department of Education's (DOE) formal response to the New York City Office of the Comptroller's (Comptroller) draft audit report on the *Financial Practices of the Department of Education's District 2 General School Funds* (Report).

*Response to recommendations*

**Recommendation 1.** *Ensure that schools open and close all GSF bank accounts through DOE's Banking Unit and DOF, and that they provide DOE's Banking Unit with the June 30<sup>th</sup> balance that DOE needs to complete its listing of all such accounts with the Comptroller's Office under Comptroller's Directive #27.*

**Response.** The DOE agrees with the recommendation as it aligns with our current practices.

The current process is for schools to open and close all GSF bank accounts through the DOE's Banking Unit, which in turn requests the action from the New York City Department of Finance (DOF). The DOE also currently requires schools to report their June 30<sup>th</sup> balances through the annual School Bank Account Report, and the DOE reminds schools about the requirement through several issues of Principals Digest. To reinforce these practices, the DOE plans to revise the InfoHub (*i.e.*, school-facing website), School Banking Training Guide, and Standard Operating Procedures Manual (SOPM) by the close of the 2020-2021 school year. The DOE will also align future trainings with these materials.

**Recommendation 2.** *Ensure that DOE's Banking Unit reports complete information concerning all schools' GSF bank accounts to BOA as required by Comptroller's Directive #27.*

**Response.** The DOE agrees with the recommendation as it aligns with our current practices.

Due to the high volume of school bank accounts, the DOE submits a spreadsheet to the Comptroller's Office containing the June 30 asset dollar value, bank name, and account number. Should the Comptroller's Office require further information, additional guidance to the DOE is necessary.

**Recommendation 3.** *Conduct an internal audit of the account activities for the seven GSF bank accounts that were not opened through DOE's Banking Unit or recorded in DOE's online Bank Account Survey to determine whether the school officials properly administered the GSF accounts in other respects and the extent to which they complied with other provisions of the GSF SOP.*

**Response.** The DOE cannot agree to the recommendation as written and provides the following clarification.

The DOE disagrees with the Comptroller's statement that all seven GSF bank accounts were not opened through the DOE's Banking Unit or recorded in the Bank Account Survey. Two accounts were opened in FY20, outside the scope of this audit period; and two account numbers were misreported to the audit team by the school, while the correct account number was on file with the DOE's Banking Unit and was therefore recorded accurately by the DOE. The DOE continues to work with the schools to bring the remaining accounts into compliance.

Given constraints on DOE resources due to the COVID-19 pandemic, the DOE cannot commit to doing audits of these accounts at this time. However, the Office of Auditor General's (OAG) Internal Control Officers will work with the Banking Team to determine which schools would benefit from a process review of bank account management and will reach out to schools to set up those reviews. Finally, the DOE's Mandated School Audit includes an audit section for General School Funds. This audit is conducted annually.

**Recommendation 4.** *Ensure that schools meet all the signatory requirements, including 1) the designation of a minimum of three full-time staff members as signatories for each GSF bank account, one of whom must be the principal, and none of whom can be the treasurer; and 2) dual signatures on each check.*

**Response.** The DOE agrees with this recommendation as it aligns with the current practice.

The DOE has already modified its School Banking System to incorporate signatory requirements, including a minimum of three full-time staff members as signatories for each GSF bank account, one of whom must be the principal, and none of whom can be the treasurer. To reinforce the practice of dual signatures on checks, the DOE plans to revise and strengthen school-facing resources and training by the close of the 2020-2021 school year.

**Recommendation 5.** *Ensure that all accounts opened for the purpose of maintaining GSF monies are checking accounts.*

**Response.** The DOE agrees with this recommendation as it aligns with the current practice.

The DOE is consolidating school bank accounts into one account per school, in turn necessitating that the school's one account be a checking account.

**Recommendation 6.** *Close all checking accounts with non-Designated Banks and all savings accounts and ensure that the funds in them are properly transferred to appropriate accounts maintained in approved institutions.*

**Response.** The DOE agrees with this recommendation as it aligns with the current practice.

The Banking Team has designed and implemented tools to flag accounts with non-Designated banks and has trained and reallocated internal staff to increase support of schools in bringing their accounts into compliance. The Banking Team has already made considerable progress on this recommendation and continues to work with schools to transfer to appropriate accounts.

**Recommendation 7.** *Ensure that school officials enforce segregation of duties in overseeing GSF account activities, handling cash receipts and disbursements, and record keeping.*

**Response.** The DOE agrees with this recommendation.

By the close of the 2020-2021 school year, the DOE plans to revise the school-facing SOPM so that GSF account activities are clearly segregated by role.

**Recommendation 8.** *Ensure that school officials reconcile GSF bank accounts monthly and are trained on how to perform accurate reconciliations.*

**Response.** The DOE agrees with this recommendation.

By the close of the 2020-2021 school year, the DOE plans to revise the school-facing Bank Reconciliation Template as well as provide a corresponding User Guide. Furthermore, the School Bank Account System can now identify when a Treasurer is no longer active at a school, in turn identifying when a new staff person needs training. The DOE will also provide training resources for schools on how to perform monthly bank reconciliations.

**Recommendation 9.** *Follow up with the schools that did not respond to our survey or did not confirm a specific account to determine whether these schools 1) reported all the GSF bank accounts; and 2) complied with the GSF SOP when administering GSF monies collected.*

**Response.** The DOE agrees with this recommendation.

The DOE will follow up with the schools that did not respond to the Comptroller's audit survey or did not confirm a specific account to determine whether these schools reported all the GSF bank accounts. By the end of the 2020-2021 school year, the DOE will train these schools on the GSF SOPM.

**Recommendation 10.** *Establish year-end review procedures, including but not limited to,*  
*a. reviewing GSF bank accounts to ensure accounts open with non-Designated Banks are properly closed;*  
*b. following up with schools about accounts that have not been updated; and*

*c. ensuring dormant bank accounts are closed and the remaining funds are reallocated to the appropriate accounts.*

**Response.** The DOE partially agrees with this recommendation.

The DOE has already designed and implemented a tool that reviews GSF bank accounts to ensure accounts open with non-Designated Banks are properly closed and account officials are updated. However, the proper functioning of this tool is contingent upon DOF supplying data related to DOE accounts, particularly data from banks about DOE account status.

The DOE also follows up with schools about accounts that have not been reported via the annual School Bank Account Report, and has already implemented a policy to freeze accounts that were not reported.

The DOE disagrees, however, with the recommendation to close dormant bank account. While the DOE agrees to expediently close accounts at closed schools, DOF defines a dormant account as one without banking activity for six months. Given the fundraising and expenditure cycle of schools, six months dormancy isn't unusual. And given the amount of time and resources required to open and close accounts, the DOE does not endorse closing dormant accounts as stated as it would cause disruption and hardship for schools. Instead, the DOE will allow a school to operate a dormant account provided the account is the only GSF account the school operates.

**Recommendation 11.** *Establish procedures for school officials to properly transfer GSF bank account books and records to new school administrations when schools are closing or undergoing other changes that affect the purposes for which the accounts exist.*

**Response.** The DOE agrees with this recommendation.

The DOE will align the transfer of bank account records with its policy on the transfer of other financial records to new school administrations by amending the GSF SOPM.

**Recommendation 12.** *Establish periodic training for school officials on how to administer and reconcile GSF accounts.*

**Response.** The DOE agrees with this recommendation as it aligns with the current practice.

The Banking Team provides periodic training for school officials, including how to administer and reconcile bank accounts. The School Bank Account System can now identify when account officials are no longer active at a school, in turn identifying when a new staff person needs training. By fall of 2021, the DOE plans to offer targeted training to these schools.

**Recommendation 13.** *Consider changing its methodology on how to select schools for its internal review of GSF accounts to ensure broader coverage.*

**Response.** The DOE agrees to take this recommendation under advisement.

DOE's schools selected audit are based on risk assessments and OAG does not believe it is prudent at



this time to change its selection criteria.

**Recommendation 14.** *Conduct a review of The James Baldwin School's bank accounts to ensure school officials are not administering bank accounts on behalf of the PTA.*

**Response.** The DOE agrees with this recommendation.

The DOE will conduct a review to ensure that the school is not administering bank accounts on behalf of its PTA. If it is, we will train the school in the GSF SOPM on the segregation of bank accounts.

**Recommendation 15.** *Cease reporting the PTA account year-end balance to BOA.*

**Response.** The DOE agrees with this recommendation as it aligns with the current practice.

The DOE already excludes PTA accounts from BOA reports whenever such accounts are identified. Furthermore, requiring that schools consolidate into one bank account facilitates the identification of a PTA account that a school may mistakenly report in addition to its GSF.

Sincerely,



Lauren Siciliano  
Chief Administrative Operations Officer  
Office of the Chancellor