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DEPARTMENT OF  
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CITY OF YONKERS

**TO:** Philip A. Amicone, Mayor

**CC:** Chuck Lesnick, City Council President  
All City Council Members  
Paresh Patel, Board of Education President  
Bernard Pierorazio, School Superintendent

**FROM:** Dan Schorr, Inspector General *DS*

**SUBJECT:** Update on School District Benefits Audit

**DATE:** July 12, 2011

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This report is issued in response to inquiries from various City officials and members of the public regarding the disclosure of the School District's promised benefits audit by its internal auditor and to announce that the Inspector General (IG) will now proceed with such an audit.

In a May 15, 2006 memo to the School District, then-IG Philip Zisman suggested that the IG conduct a review of the School District's employee fringe benefits payments, including the then-\$50 million in annual health insurance payments, in order to "determine whether there are adequate internal controls in the benefits programs and identify possible cost savings." IG Zisman then spoke at a School Board Audit, Budget and Finance Committee meeting on June 21, 2006 and wrote a follow-up memo on June 27, 2006.

Following a Risk Assessment Analysis performed by internal auditor D'Arcangelo & Co. (D'Arcangelo), IG Zisman reiterated the proposed review in a January 4, 2008 memo to the School District. Then-President of the Board of Education (BOE) Bernadette Dunne responded in a February 7, 2008 letter that the IG "services are not required" because, in part, the internal auditor would be performing such work. After several discussions, IG Zisman informed the School District on December 1, 2008 that the IG would proceed with the benefits review, despite a lack of BOE support. At a meeting on December 15, 2008, IG Zisman was told by the School District that the BOE did not want the IG to perform the review and reiterated that it would be unnecessary because internal auditor D'Arcangelo was already conducting such an analysis of health insurance payments.

On January 21, 2009, the BOE adopted a resolution declaring that the IG could only “provide services to the Board on an invitational basis,” thus attempting to take away the IG’s ability to perform independent reviews of the School District. In subsequent letters, IG Zisman asserted the IG’s statutory authority to review the School District’s administrative operations and the BOE contested this interpretation. On May 1, 2009, the BOE issued a written statement that referred to IG Zisman’s “proposed audit of health insurance costs” as “redundant and unproductive” and “a waste of taxpayers’ dollars” because such an audit was already being conducted by the internal auditor. The statement asserted that “the health insurance issue is being addressed” by the internal auditor and that IG Zisman should “wait for the results before deciding what action he should take.” Similar language was utilized in a letter from the BOE to City Council Members on May 5, 2009.

A May 28, 2009 memo from the School District to IG Zisman referred to the proposed “examination of the District’s benefit administration” and stated that “the D’Arcangelo audit would cover the same substantive areas that the IG planned to examine.” In response, IG Zisman wrote in a June 1, 2009 e-mail to the School District that the IG will at that time not proceed with the benefits review and “will reserve judgment until we have reviewed the final report and underlying work papers” of the D’Arcangelo audit. He wrote that he is “requesting that the firm’s work papers regarding the audit of the health insurance payments be provided to my office when they are available.”

On June 25, 2009, the BOE issued a news release which stated that D’Arcangelo “is now conducting an audit of our payroll and benefits systems. The audit will include an examination and audit of health and welfare payments. The Inspector General has requested to do a similar audit of our health and welfare payments...such an audit would be unnecessarily duplicative of the internal auditor’s work and be unnecessarily disruptive of the day-to-day operations of the District.” The BOE then adopted a resolution on July 15, 2009 which withdrew the IG’s status “as Inspector General of the Yonkers Public School.” This resolution has not been rescinded. On September 29, 2009, the BOE sued the IG to prevent it from obtaining any School District information by subpoena, arguing that the IG did not have legal authority to review School District administrative operations.

On February 16, 2010, Dan Schorr was sworn in as the new IG and continued the IG’s defense against the BOE lawsuit. On July 1, 2010, Judge William J. Giacomo of the New York State Supreme Court Justice ruled in favor of the IG, stating that “local law as well as state law provide defendant with the power and authority to investigate and/or audit the plaintiff with respect to matters not strictly educational or pedagogic.” The IG then contacted the School District regarding the benefits review and met with School District officials on July 29, 2010. The IG asked for the internal auditor report for the audit the BOE had repeatedly said that D’Arcangelo was conducting over a year earlier. The officials stated that the report should be available in August.

Over the next several months, the IG continued to repeatedly follow-up with School District officials regarding the internal auditor benefits report. The report was not produced in August, or at any subsequent time. In October, the School District wrote in an e-mail that the report was anticipated to be available “just before Thanksgiving.” Numerous e-mails, phone calls, and in-person conversations between the IG and School District officials occurred over the next several months, and the internal auditor benefits report was not produced.

On April 6, 2011, the IG informed School District officials that it would proceed with its own benefits audit, as the IG had originally proposed in May 2006, because the promised internal auditor report which had led the IG to put its review on hold in June 2009 still had not been issued. The School District then arranged a meeting with the IG, School District and BOE officials, and representatives of D’Arcangelo on April 27, 2011, at which the firm stated that the report would be produced by late May or early June.

Despite this promise, approximately three and half years after the BOE stated that the internal auditor would be performing this review, over two years after the BOE stated that an IG benefits review would be “unnecessarily duplicative of the internal auditor’s work and be unnecessarily disruptive of the day-to-day operations of the District” and that it should “wait for the results” before starting “redundant and unproductive” work, and almost one year after IG Schorr was told that the report was expected the following month, no evidence of such a review has been produced and multiple promised deadlines have passed.

Furthermore, we reviewed the School District contracts with D’Arcangelo. Since 2006, there have been two contracts. An initial October 2006 contract called for “a comprehensive risk assessment and audit plan” at a cost of \$114,000. The report was completed in June 2007 and D’Arcangelo was paid in full. A second contract was created in March 2008, involving three separate areas of work for a total cost of \$224,000. First, D’Arcangelo would be paid \$98,000 to “update” the “prior risk assessment”. This project was never completed and payment was not made. Second, the firm was tasked with performing “internal audits of Purchasing and Accounts Payable functions” for \$52,500. This work was completed in September 2008 and the School District made payments of \$26,500 in June 2008 and \$26,000 in October 2009.

Finally, the contract called for D’Arcangelo to audit “Human Resources and Payroll functions” including “benefits administration” – the subject of this report – at a cost of \$73,500. The School District made payments of \$18,375 in October 2009 and \$55,125 in February 2011, paying D’Arcangelo in full for the benefits review that has been continually promised but never produced.

Thus, the IG will no longer wait for the promised internal auditor’s report and will now proceed with its own audit and review of the School District’s payments for employee health insurance benefits, as originally proposed.

### **School District Response Statement**

The IG shared this report with School District officials in advance of its release and Board of Education President Paresh Patel issued the following statement for inclusion in the report:

“The District is in substantial agreement with the history recounted in the first two pages of Inspector General Schorr’s three-page update regarding the benefits audit. We note that, as soon as the legal issues surrounding IG Zisman’s use of subpoena power were resolved, the District invited the IG’s office in to conduct a full and complete benefits audit. The IG has shown patience, as has the District, with the often promised and much delayed final report from the D’Arcangelo firm. We continue to fully support a thorough audit and review by the IG and, as we have offered several times over the past year, will make any and all necessary District documents and personnel available to that end.”