

Cheektowaga-Maryvale Union Free School District

Continuing Education

SEPTEMBER 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Cheektowaga-Maryvale Union Free School District

Audit Objective

Determine whether District officials properly accounted for the Continuing Education Department's (Department) financial activity.

Key Findings

- Community education financial activity was not accounted for in the correct fund.
- Certain literacy program revenue was improperly recorded as community education revenue.
- Fringe benefit costs were disproportionately charged to the community education program expenditure account instead of the literacy program, totaling \$728,000.
- Officials did not always properly record literacy program revenue in the correct fiscal year.

Key Recommendations

- Properly account for community education activity in the general fund.
- Accurately record revenue and expenditures in the correct program.
- Recognize revenue in accordance with the modified accrual basis of accounting.

District officials agreed with our findings and indicated they planned to initiate corrective action.

Background

The Cheektowaga-Maryvale Union Free School District (District) serves the Town of Cheektowaga in Erie County. The five-member Board of Education (Board) is responsible for the general management and control of the District's financial and educational affairs.

The Superintendent of Schools is the District's chief executive officer, responsible for the District's day-to-day operations under the Board's direction. The Assistant Superintendent for Administrative Services (Administrator) is responsible for the supervision of the business office staff. The business office accountant (accountant) reports to the Administrator and is responsible for the District's day-to-day accounting activities.

The Director of the Department (Director) oversees its day-to-day operations.

Quick Facts

Employees	300
Enrollment	2,200
2018-19 General Fund Appropriations	\$45 million
2018-19 Department Appropriations	\$1 million

Audit Period

July 1, 2014 – February 1, 2019

Continuing Education Department

The District operates a Continuing Education Department (Department) that consists of two distinct programs: community education and literacy. Community education offers recreational-type classes such as fitness, crafts and other topics of interest. Attendees pay a tuition fee determined by the class instructor. Approximately 230 individuals were enrolled in 40 different classes offered during the 2018 winter session.

The literacy program offers an academically based curriculum to individuals interested in improving job readiness, preparation for the high school equivalency exam, developing or improving English language speaking, reading and writing skills, and increasing college preparedness. Literacy program courses are taught by certified instructors and are free of charge. State and federal aid and grants fund this program. During the first half of the 2018-19 fiscal year, approximately 450 individuals attended 20 different literacy classes offered by the District at its District campus and at other locations throughout Erie County.

How Should Officials Properly Account For and Report the Department's Financial Activity?

School districts maintain their accounting records on the modified accrual basis, in the form of governmental and fiduciary funds. Under this method, expenditures are recorded when the related liability is incurred and revenues are recognized when they are measurable and available. Community education programs must be accounted for in the general fund, while a special revenue fund (i.e., special aid fund) accounts for the proceeds of specific revenue sources that are restricted or committed to expenditures for a specific purpose, such as certain aid and grant-funded programs.

Accurate and complete records and reports enable the Board and District officials to properly evaluate the financial condition of each program and make prudent and timely financial decisions.

The Department's Financial Activity Was Improperly Accounted For

Financial activity for the community education program was not recorded in the general fund as required, but instead was accounted for in the special aid fund. The accountant established sub-funds within the special aid fund to record the community education and literacy program's financial activities separately.

In addition, both revenues and expenditures were incorrectly accounted for within these two sub-funds.

Literacy Program Aid – During our audit period certain literacy program aid was incorrectly accounted for as community education revenue.¹ This literacy aid increased from approximately \$155,000 in 2014-15 to \$330,000 in 2017-18, for a four-year total of \$840,000. Because this aid was improperly added to the community education program’s revenues, which annually averaged approximately \$160,000 prior to the literacy aid addition, this total revenue appeared significantly higher than the community education program’s actual expenditures, which annually averaged approximately \$190,000.

Additionally, officials did not always properly recognize literacy program revenue in the correct fiscal year in accordance with the modified accrual basis. For example, the Director routinely directed the accountant to not record literacy aid until the subsequent fiscal year. For example, approximately \$200,000 (50 percent) of the total of certain literacy aid awarded for 2017-18 was instead recorded as revenue for 2018-19.

The Director told us that he did this because he sometimes waited until the next fiscal year before depositing the last aid check to ensure he would have enough money to operate the literacy program. For example, an aid check dated April 19, 2017 for \$110,864 was not deposited until July 10, 2017. While this check was intended for 2016-17 literacy program operations, it was recorded as revenue for 2017-18. The Director told us he was not provided with adequate financial information, such as budget status reports, to properly monitor financial activity. As a result, he told us his understanding was that the Department had “just enough” revenue to pay for expenditures each year. Because one of these aid sources has increased by \$265,000, or more than 60 percent, since 2014-15, this has increasingly become a more significant amount.

Literacy Program Expenditures – Certain literacy program expenditures were incorrectly reclassified as community education program expenditures. The accountant told us she thought each program’s revenues and expenditures in the special aid fund had to be equal. Therefore, she annually made year-end journal entries, which were approved by the Administrator but not always reviewed in detail, to reclassify literacy program expenditures so that revenues and expenditures appeared to balance in both programs’ accounts. For example, during our audit period, payroll expenditures totaled approximately \$2.5 million for the literacy program and \$516,000 for the community education program. Through the reclassifications, even though more than 80 percent of the total payroll costs were incurred by the literacy program, fringe benefit costs² were disproportionately charged to the community education program expenditure account, totaling \$728,000 (94 percent of total fringe benefit costs of both programs). For perspective, this amount exceeded the community education

1 District officials discontinued this practice in 2018-19.

2 Payroll taxes, health insurance, retirement contributions

program's total payroll cost during our audit period. Meanwhile, the remaining fringe benefit costs totaling \$47,000 were accounted for in the literacy program's expenditures, equating to less than 2 percent of its overall payroll.

The Department's Financial Activity Was Improperly Reported

Because officials did not properly account for the Department's financial activity, it was also improperly reported. During the last four fiscal years,³ the Department's year-end operating results reported expenditures exactly equal to revenues, with no operating surpluses or deficits, which was not accurate.

For perspective, we recalculated⁴ the Department's results of operations for the same period. As a result, it appears that the community education program may have operated at an annual loss (deficit) ranging from \$10,000 as of June 30, 2015 to \$65,000 as of June 30, 2018, for an approximate total cumulative deficit of \$130,000. Further, because it was improperly recorded in the special aid fund, it may have been annually subsidized by revenue that should have been restricted for the literacy program. Had the community education program been properly recorded and reported in the general fund, as required, and supported by supplemental detailed accounting records, the Board and District officials may have been in a better position to evaluate the program's operations.

Conversely, it appears that the literacy program's financial condition is trending toward annually increasing operating surpluses. This trend ranged from an operating deficit of approximately \$10,000 as of June 30, 2015 to a surplus of \$185,000 as of June 30, 2018, resulting in a total cumulative surplus of about \$240,000.⁵

Based on our analysis and discussions with District officials, both of these trends appear to continue in 2018-19.

Without accurate financial information, the Board and District officials cannot properly evaluate whether the Department's programs are operating in a cost-effective manner and as intended.

3 2014-15, 2015-16, 2016-17, 2017-18

4 See Appendix B for more details on this methodology.

5 We properly recorded revenue in the correct fiscal year in our recalculations. As such, the operating results will be more positive than what the District had reported (i.e., revenues equaled expenditures for both programs).

What Do We Recommend?

The Administrator should:

1. Ensure that the accountant:
 - Accounts for the community education financial activity in the general fund,
 - Records expenditures within the correct program, and
 - Records revenue in the correct fiscal year.
2. Review the accountant's journal entries to ensure they are properly supported and accurately recorded.
3. Provide Department officials and the Board with timely and accurate financial information, such as budget status reports with historical trends, so that they can properly monitor and evaluate operations.

The Board and District officials should:

4. Periodically review financial reports to monitor the status of the Department's programs.

Appendix A: Response From District Officials



Maryvale

Cheektowaga-Maryvale Union Free School District

Joseph R. D'Angelo
Superintendent of Schools

To: [REDACTED]
From: Joseph R. D'Angelo
Date: August 29, 2019
Re: Response to draft audit report

The District has reviewed your draft audit report for the audit of our Community Education Program. You have addressed the one concern we discussed when we met to review the report. The District does not disagree with your findings noted in the revised draft report. We will prepare a corrective action plan and address these important issues with the new Director of Community Education once we get that person in place.

Joseph R. D'Angelo
Superintendent of Schools

1050 Maryvale Drive • Cheektowaga, NY 14225 • Phone: 716-631-7407 • Fax: 716-635-4699 • www.maryvaleufsd.org

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Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District officials and reviewed District policies, audited financial statements and Board meeting minutes to gain an understanding of the Department's operations and accounting and reporting practices.
- We examined the business office's and the Department's financial records and reports regarding the Department's 2014-15, 2015-16, 2016-17, 2017-18 and 2018-19 financial activity through February 1, 2019 to determine whether it was properly recorded and reported.
- We examined information from both the Department and the New York State Education Department regarding the Department's literacy program revenue amounts and financial activity recording and reporting requirements.
- We recalculated the results of operations for the community education and literacy programs individually, for 2014-15, 2015-16, 2016-17 and 2017-18, by reclassifying revenue to the proper program using the modified accrual basis, and reversing year-end journal entries that reclassified literacy expenditures to the community education program. We performed this analysis to provide perspective on how, cumulatively, these may potentially have affected the accuracy and reliability of the financial recording and reporting of each program.

We conducted this performance audit in accordance with GAGAS (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.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3) (c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the fiscal year. For more information on preparing

and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lgmg

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

BUFFALO REGIONAL OFFICE – Jeffrey D. Mazula, Chief Examiner

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