

TOWN OF WESTPORT
OFFICE OF THE INTERNAL AUDITOR



INTERNAL AUDIT REPORT

WESTPORT CONTINUING EDUCATION

IA 15-03

FEBRUARY 11, 2015



LETTER OF TRANSMITTAL

FEBRUARY 11, 2015

CHAIRMAN PINCAVAGE AND MEMBERS OF THE TOWN OF WESTPORT'S BOARD OF FINANCE:

I respectfully submit the enclosed internal audit report of the Westport Continuing Education (WCE) program. I greatly appreciate the time, patience and cooperation of all parties involved in this audit.

This audit was conducted in response to a request by the WPS Director of School Business Operations. The WCE fund balance at fiscal year end June 30, 2013 was in a deficit position of -\$121k, having rapidly declined since fiscal year ended June 30, 2008 (FY08 fund balance was at \$630k). This report summarizes key reasons for this decline and offers recommendations intended to assist Westport Public Schools administrators in identifying opportunities for strengthened controls and efficiencies associated with the activities of WCE.

AUDIT OBJECTIVES:

1. To review revenue and expenditure activity on a transactional level to determine the key reasons for the decline in the fund balance for Westport Continuing Education (WCE), including the summer school fund, over the past 6 fiscal years (fiscal year ended 6/30/09-present).
2. To evaluate existing fund balance policy related to the WCE.
3. To assess the adequacy of budgeting, accounting and reporting processes of WCE. To include:
 - a. Review and assess the process of planning for seasonal course offerings, including
 - i. course pricing structures
 - ii. balance of mandated vs. enhancement programs
 - b. Assess the methodology for WCE revenue and expenditure projections
 - c. Assess the adequacy of periodic financial reporting
 - d. Analysis of vendor selection process
4. To assess compliance with mandated state requirements.
5. To evaluate the levels of cost-sharing contributions by the towns of Wilton and Weston.

AUDIT SCOPE:

This audit included a review of financial information related to the financial and operational activities of Westport Continuing Education. NOTE: Direct, read-only access to the WCE financial information contained within eFinance Plus or Web Solutions was not granted for the purposes of this audit. Despite this limitation, all information requested was provided by WPS in a timely, courteous manner.

METHODOLOGY:

This audit involved a substantial amount of analysis of available financial and operational data. Interviews with key WCE personnel to understand major financial processes were conducted. A number of meetings with the Director of School Business Operations to discuss the status of the audit were also conducted.

In closing, it is important to note that WPS made some strategic decisions regarding WCE during the course of this audit. Most notably:

- At the end of FY14, WPS reimbursed WCE \$134k for electricity and rent payments made during that fiscal year. This brought the fund balance at June 30, 2014 to a smaller deficit position of -\$24,928. Without this remediation, the fund deficit would have declined further to -\$160k.
- On January 13, 2014, Westport’s Board of Education (BOE) voted to transfer state-mandated programs to the Continuing Education Program of Norwalk Public Schools.
- Resulting from this reorganization, WPS announced its plans to modify the job description of the Director of Continuing Education at a reduced salary.

Thank you for the opportunity to provide this information to the Board of Finance.

Very Truly Yours,

Lynn Scully
Internal Auditor, Town of Westport

CC: JAMES MARPE, FIRST SELECTMAN
ELLIOT LANDON, SUPERINTENDENT OF SCHOOLS
GARY CONRAD, DIRECTOR OF FINANCE
ELIO LONGO, SCHOOL BUSINESS ADMINISTRATOR
MICHAEL GORDON, CHAIRMAN, BOARD OF EDUCATION
EILEEN FLUG, CHAIRMAN, REPRESENTATIVE TOWN MEETING
JEFFREY WEISER, CHAIRMAN, RTM FINANCE COMMITTEE

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A. OVERVIEW OF WESTPORT CONTINUING EDUCATION

Westport Continuing Education (WCE) is a component unit of Westport Public Schools which offers both state-mandated educational opportunities and non-mandated enrichment opportunities for children and adults¹. WCE offers 3 different sets of programs (catalogues) during the year:

Exhibit 1

SUMMER (Mid Jun - Mid Aug)	FALL (Sept-Dec)	WINTER (Jan - Mid Jun)
<ul style="list-style-type: none">• NON-MANDATED• Enrichment for adults and children• Summer School• Sports Camps	<ul style="list-style-type: none">• MANDATED• ABE/GED• Citizenship/ESL• NON-MANDATED• Enrichment for adults and children	<ul style="list-style-type: none">• MANDATED• ABE/GED• Citizenship/ESL• NON-MANDATED• Enrichment for adults and children

Mandated programs are free of charge to residents of Westport, Wilton and Weston. Non-mandated programs are fee-based and are open to the general public.

BUDGET

The WCE budget is included in the “Other Budgets” section of the annual WPS budget, which is approved on a line-item basis by the Westport Board of Education (BOE) and on a bottom-line basis by the Westport Board of Finance (BOF) and the Westport Representative Town Meeting (RTM)². Both revenue and expenditure projections are presented in the annual budget. During the time under review, **WCE’s annual expenditures were estimated between \$1.2-1.8 million.**

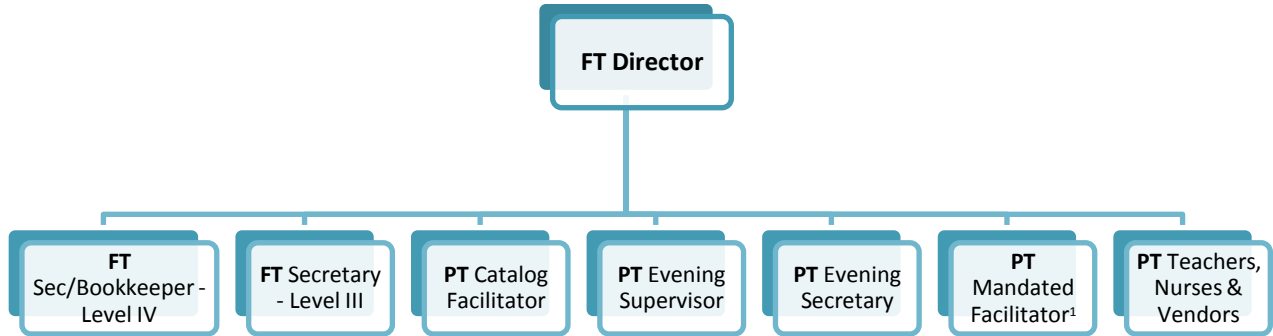
¹ In January 2015, the Westport Board of Education voted to move its mandated programs to the City of Norwalk.

² BOF and the RTM can only approve the total appropriation for the BOE’s proposed operating budget. Line-item control is the jurisdiction of the BOE exclusively, per state statutes.

STAFFING

There are presently 3 Full-Time (FT) and 4 Part-Time (PT) employees working for WCE, along with a variable number of part-time teachers and nurses that are paid either through the WPS payroll or as vendors through the WPS accounts payable function. The Director of WCE reports directly to the WPS Director of School Business Operations³.

Exhibit 2



SYSTEMS

WCE conducts business with the public for all non-mandated programs through its website, westportcontinuinged.com, which is hosted by Web Solutions. WCE expenditures are run through WPS’ eFinance Plus. WCE uses the CT Department of Education website for its mandated reporting.

FINANCES

WPS maintains a separate bank account for all financial activities of the WCE. In the Town’s Comprehensive Annual Financial Report (CAFR), this fund is considered a combined fund, part of the Town’s General Fund.

REPORTING

WCE files two reports annually to the State of Connecticut regarding its mandated programming. Local school districts and other eligible agencies providing mandated adult education programs are reimbursed by the Connecticut State Department of Education on a cost-sharing, sliding scale based on the relative wealth of a district. WCE receives approximately \$2k (less than 1%) annually from the CT Department of Education as reimbursement for these programs.

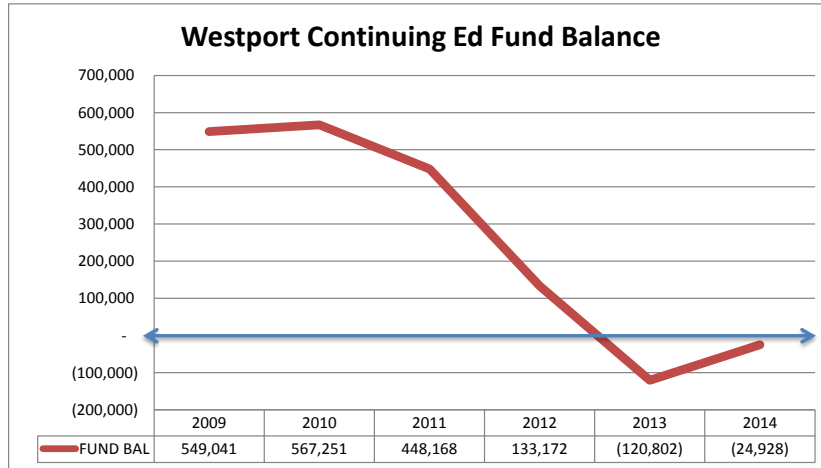
³ The position of Director of Continuing Education is under revision and is presently filled by an interim employee.

B. OBSERVATIONS

DECLINING FUND BALANCE

As illustrated in Exhibit 3 below, WCE has had a declining fund balance for the past several years.⁴

Exhibit 3



KEY REASONS FOR THE DECLINE

- BUDGETED LOSSES** – During the years under review, it is clear that WPS planned to annually supplement departmental expenditures by using a portion of the WCE fund balance through its budget process, as illustrated in the budgetary information summarized in Exhibit 4 below. Actual results were slightly favorable overall in comparison to these projections.

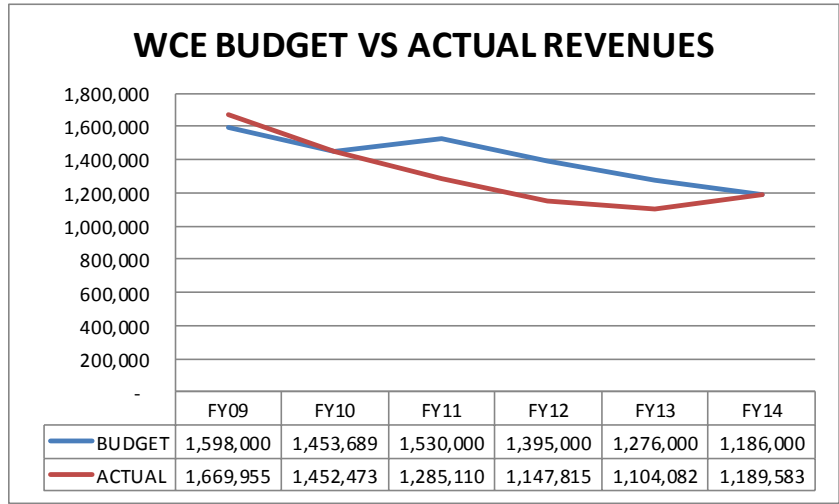
Exhibit 4

	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	
	FY09 Budget	FY10 Budget	FY11 Budget	FY12 Budget	FY13 Budget	FY14 Budget	
BUDGETED REVENUES	1,598,000	1,453,689	1,530,000	1,395,000	1,276,000	1,186,000	8,438,689
BUDGETED EXPENDITURES	1,782,111	1,547,829	1,535,100	1,641,817	1,412,500	1,186,000	9,105,357
BUDGETED PROFIT/(LOSS)	(184,111)	(94,140)	(5,100)	(246,817)	(136,500)	-	(666,668)
ACTUAL PROFIT/(LOSS)	(19,079)	18,211	(119,083)	(314,996)	(253,974)	95,874	(593,047)
							73,621

⁴ Continuing Education and Summer School were presented as separate funds in the Town's Comprehensive Annual Financial Report (CAFR) in FY09 and prior, but have been combined in this analysis for comparative purposes.

2. **DECLINING REVENUES** – As illustrated in Exhibit 5 below, WCE revenues have decreased by about 30% over the past several years and did not meet projections for FY11-13.

Exhibit 5



- **Competition** - The decline in WCE revenues may in part be attributed to increased competition from other local sources, such as:
 - **Westport Parks & Recreation** – offers sports and enrichment programs for all ages
 - **Westport Senior Center** – offers sports and enrichment programs for seniors
 - **Westport Public Library** – offers enrichment programs for all ages
 - **Westport/Weston YMCA** – offers sports programs for all ages
 - **Earthplace** – offers enrichment programs for children

3. **MAJOR TRANSACTIONS** – there were several budgeted and unbudgeted expenditures during the time under review. That information is summarized in Exhibit 6 below:

Exhibit 6

Westport Continuing Education Major Transaction Analysis*										
		FY8	FY9	FY10	FY11	FY12	FY13	FY14		
SUMMARY										
	Utilities & Rent	32,386	134,660	134,533	136,407	187,664	189,065	5,500	820,215	75%
	Construction Projects	23,093	40,900	2,900	100,474	3,380			170,748	16%
	Computer Equipment				2,498	100,800			103,298	9%
		55,479	175,560	137,433	239,379	291,844	189,065	5,500	1,094,261	

*Because one of the construction projects commenced in FY08, that fiscal year is included in this illustration.

- **Electricity** – for most of the years under review, \$100k/yr of electricity bills for SHS were disbursed from WCE funds. This amount was increased in FY12 and FY13 to \$150k (see Finding 1.a.).

- **Canal St. Rent** – Since July 2006, WCE has paid \$40k/yr rent to Aquarion for the building on Canal Street that is occupied by the WPS Maintenance Department. WCE’s actual use of this building is minimal (see Finding 1.a.).
 - **Construction Projects**
 - Two air conditioning projects at SHS were paid for with WCE funds. (approx. \$93k). (UNBUDGETED – see Finding 1.c.)
 - WCE paid to replace the SHS Pool Filter (approx. \$78k). This was included in WCE’s BOE-approved budget.
 - **Computer Purchases** – In FY12, WCE purchased 117 computers for SHS & BMS (approx. \$101k) (BUDGETED)
4. **MANDATED PROGRAMS** – Annual costs associated with the state mandated programs have represented 16-22% of the total WCE budget. Until FY14, WCE was paying 76% of those mandated costs, despite serving the Towns of Wilton and Weston. In FY14, the WPS Director of School Business Operations increased the amount billed to Wilton and Weston.

Exhibit 7

	FY10	FY11	FY12	FY13	FY14
	Actual	Actual	Actual	Actual	Projected
MANDATED REVENUES	59,557	57,048	59,408	60,866	95,868
MANDATED EXPENDITURES	234,522	237,694	247,533	253,610	239,669
WCE SHARE	174,965	180,646	188,125	192,744	143,801
	75%	76%	76%	76%	60%

C. FINDINGS AND RECOMMENDATIONS

The following findings and recommendations are operational in nature and are intended to assist WPS administrators in identifying opportunities for strengthened controls and efficiencies.

1. Westport Continuing Education Fund Balance

a. Finding re: High Overhead: - Needs Improvement

Exhibit 8

Continuing Education Major Transaction Analysis - Overhead								
	FY8	FY9	FY10	FY11	FY12	FY13	FY14	
413 Electricity			100,000	100,000	150,000	150,000	5,500	505,500
414 Natural Gas		100,000						100,000
440 Rentals - Canal Street	32,386	34,660	34,533	36,407	37,664	39,065	-	214,715
	32,386	134,660	134,533	136,407	187,664	189,065	5,500	820,215

Electricity – With the exception of FY08 and FY09, WCE has been paying directly for electricity at SHS since before the years under review (earliest budget data available revealed that WCE paid \$100k for electricity in FY07). See finding 2.a. re electricity budgeting.

Natural Gas – in FY09, WCE paid \$100k for Natural Gas. This amount was not included in the WCE’s approved budget.

Rent – Since July 2006 (FY07), WCE has been paying Aquarion monthly rent for the building housed by the WPS Maintenance Dept. The monthly rent payment for this building has continued to climb annually (see Exhibit 9) and the building is actually used very infrequently by WCE.

Exhibit 9

Canal Street Rent (Aquarion)							
	2009	2010	2011	2012	2013	2014	2015
Monthly Payment	2,785	2,823	2,984	3,088	3,196	3,308	3,424
		1%	6%	4%	3%	3%	4%

Costs Not Included in Overhead - there are costs associated with WCE building usage such as maintenance/custodial time & materials that do not appear to have been charged to WCE.

Recommendation:

WCE is undergoing much change since the departure of its Director and the impending shift of the mandated programs to Norwalk. The Director of School Business Operations is aware of the potential inequities of overhead allocation to WCE and has already taken action for FY14 by reimbursing WCE for electricity and rent prior to the close of that fiscal year.

It is recommended that a thorough review of all overhead costs associated with WCE (in its revised organizational and operational structure) be conducted to improve budget planning and ensure proper funding going forward.

Further, WPS should evaluate alternatives to renting the Canal Street property for WPS' Maintenance Department.

Finally, any substantial revision to the WCE's approved budget should be brought to the BOE in a timely manner for review and approval.

b. Finding re: Policy for Fund Balance: - Needs Improvement

Exhibit 10

WCE Balance Sheet Analysis							
	2009	2010	2011	2012	2013	2014	
Assets	1,135,445	1,136,428	1,097,414	624,299	354,406	416,588	
Liabilities	586,404	569,177	649,246	491,127	475,208	441,516	
Fund Balances	549,041	567,251	448,168	133,172	(120,802)	(24,928)	
Total Liabilities and Fund Balances	1,135,445	1,136,428	1,097,414	624,299	354,406	416,588	
Current Ratio (assets/liabilities)	1.94	2.00	1.69	1.27	0.75	0.94	

Balance sheet information for WCE is presented in the Town's Comprehensive Annual Financial Report (CAFR). A look at the current ratios (Exhibit 10, above), a simple measure of solvency, reveals that WCE assets are no longer sufficient to meet its obligations (liabilities are greater than available funds).

There does not appear to be a policy in place by the BOE specific to maintaining an adequate fund balance for WCE.

Recommendation:

The Director of School Business Operations should recommend to the BOE a plan to bring WCE to a more self-sufficient financial condition and should recommend a policy for the BOE to adopt regarding:

- Healthy fund balance targets for WCE

- Acceptable use of WCE fund balance
- Required periodic reporting on WCE performance – perhaps to be included in the quarterly financial information provided to the BOE (see Finding 2.b.)

c. **Finding re: Unbudgeted Projects charged to WCE: - Needs Improvement**

Two air conditioning projects at SHS were charged directly to WCE. These projects were not included in the BOE’s approved budget for WCE.

Exhibit 11

WCE Unbudgeted Air Conditioning Projects*					
	FY8	FY9	FY10	FY11	FY12
SHS Weight Room A/C Project (Unbudgeted)					
Holzner Electric Construction	18,500	40,900	2,900		
Consulting Engineering Services	4,593				66,893
SHS Woodshop A/C Project (Unbudgeted)					
LeClaire Heating & Air				7,400	2,000
Trane Co				5,150	
Acorn Electrical				1,864	
Fairfield County Sprinkler				727	
A Quick Pick Crane Service				592	
Electrical Wholesalers				223	
FW Webb Co				548	
American Boiler					1,380
Silver Petrucelli & Assoc (Moved to 330)				6,120	26,004
	23,093	40,900	2,900	22,624	3,380
					92,898
*These projects (with the exception of \$6k to Silver Petrucelli) were charged to account 732, Non-Instructional Technology					

The SHS Weight Room A/C project was included in the 2008-2009 5-Yr Capital Forecast for completion in FY10, along with other air quality projects. As the weight room project was already well underway in FY09, it should have been included in the list of current projects. (This project was also erroneously listed in all of the capital forecasts through 2013-14.)

The SHS Woodshop A/C Project was included in the 2008-2009 5-Yr Capital Forecast for completion in FY11.

Recommendation:

All capital projects undertaken outside of the budget process should be subject to board approval and routine reporting as per current BOE policy.

2. Procedural

a. **Finding re: Budgeting for Electricity: - Needs Improvement**

Exhibit 12

SHS Electricity PER BUDGET REPORTS									
	SHS			WCE			SHS & WCE		
	Budget	Actual	Over/(Under)	Budget	Actual	Over/(Under)	Total Budgeted	Total Actual	Difference
FY 09	866,290	925,715	(59,425)	100,000	100,000	-	966,290	1,025,715	(59,425)
FY 10	830,009	675,878	154,131	100,000	100,000	-	930,009	775,878	154,131
FY 11	783,000	648,234	134,766	110,000	100,000	10,000	893,000	748,234	144,766
FY 12	675,000	543,649	131,351	150,000	150,000	-	825,000	693,649	131,351
FY 13	550,000	544,026	5,974	150,000	150,000	-	700,000	694,026	5,974
FY 14	600,000	656,430	(56,430)	100,000	5,500	94,500	700,000	661,930	38,070
TOTAL	4,304,299	3,993,932	310,367	710,000	605,500	104,500	5,014,299	4,599,432	414,867

WCE directly pays for a portion of the electricity expense for SHS, but it does not appear that the electricity budget for SHS was correspondingly reduced to reflect this subsidy. Based on a budgetary analysis (see Exhibit 12 above), it appears that WPS was over-budgeting for electricity for SHS for FY10-12. The issue of over-budgeting for utilities was discussed in IA 14-01, Audit of Capital Projects (finding 1.c.).

Recommendation:

As was discussed in IA 14-01, routinely budgeting above actual experience is not a sound fiscal practice. As an energy efficiency study is currently underway for the district, it is recommended that budgetary practices be concurrently revised to afford greater transparency in accounting for and reporting of utility costs at WPS.

b. **Finding re: Financial and Operational Reporting: - Needs Improvement**

The financial activities of WCE are not included in the quarterly financial reports provided to the BOE.

Recommendation:

Budget-to-actual financial reports for WCE should be provided to the BOE as part of the quarterly financial reporting process.

c. **Finding re: Segregation of Duties: - *Needs Improvement***

The WCE Bookkeeper/Secretary routinely performs a number of tasks associated with tuition payments that come in through the mail and/or in person that are considered incompatible duties:

- ***custodial*** – handles payments and prepares the bank deposits
- ***recordkeeping*** - posts payments in detailed subsidiary ledgers and journal entries into general ledger, and
- ***reconciliation*** - prepares the monthly bank reconciliations

Recommendation:

For proper internal control, custodial and recordkeeping/reconciliation responsibilities should be segregated to decrease the risk of misappropriation. It is recommended that bank deposits be handled by an individual independent of recordkeeping responsibilities (preferably the Director).

3. **Organizational/Strategic**

a. **Finding re: Sports Programs: - *Needs Improvement***

WCE runs a number of sports programs, as does the Town's Parks & Recreation Department. WCE's sports programs are often in direct competition with those of Parks & Recreation for participants, despite the fact that the two departments require access the same school facilities to run them. Parks & Recreation usually has high demand for its sports programs and often utilizes wait lists due to space limitations.

Recommendation:

It is recommended that WPS initiate discussion with the Town regarding potentially combining WCE's sports programs with those of the Town's Parks & Recreation Department. Parks & Recreation staff have expertise in athletic programming, and it would free up WCE staff time to focus on enrichment.