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**DEPARTMENT OF
INSPECTOR GENERAL
CITY OF YONKERS**

TO: Bernadette Dunne, President Yonkers Board of Education
All Board of Education Trustees
Bernard P. Pierorazio, Superintendent of Schools

CC: Patricia McDow, City Council Member

FROM: Philip A. Zisman, Inspector General

SUBJECT: Center for Continuing Education

DATE: April 15, 2008

The Inspector General's Office has conducted a review of the School District's Center for Continuing Education. This memorandum sets forth our findings.

Background

On March 31, 2006, the consulting firm KPMG issued a Performance/Operational Audit of the Yonkers School District, which included a review of the District's Center for Continuing Education ("CCE"). CCE administered the District's adult education programs until it was disbanded by Superintendent Pierorazio at the conclusion of the 2006/2007 fiscal year.

The KPMG report on CCE raised accounting questions. Specifically, KPMG found that all costs associated with running CCE were not reflected in the budget process. As a result, although the Director of CCE reported that CCE was essentially self-funded and relied primarily on State Aid for operating funds, in actuality, in fiscal year 2004/05, CCE amassed a deficit estimated at approximately \$800,000. According to KPMG, not properly accounting for the expenses of running CCE made it difficult for School District management to

make informed decisions with respect to “growing, terminating and/or subsidizing” the adult education programs.

The KPMG findings did not provide an explanation for why CCE operated at a deficit. After the KPMG report, additional questions about the administration of CCE were raised. In July of 2007, based on concerns that CCE funds may have been missing, Council Member Patricia McDow made a formal request to both the Inspector General and the New York State Comptroller for an investigation into CCE. (See attached copy of letter dated July 17, 2007.)

After receipt of Ms. McDow’s request and a discussion with a representative from the State Comptroller’s Office, the Inspector General decided to conduct a review of CCE’s financial operations to determine if Ms. McDow’s concerns about missing funds warranted a comprehensive investigation or audit.

Objective, Scope and Methodology

The objective of our review was to determine whether a more in depth investigation or audit of CCE was required. We sought to determine whether CCE operated at a deficit for 2005/06 and 2006/07, and to explain the reasons for any deficits that we found. In addition we wanted to determine whether there was any evidence of missing funds.

Our review focused on fiscal years 2005/06 and 2006/07, the two years that CCE operated after KPMG reported a deficit in 2004/05. We reviewed the District’s financial records for that period, but not the administrative records maintained by CCE, which were not readily available.¹ We interviewed the accounting staff that worked on CCE matters, former Director of CCE Charles Whelan, CCE grant writer/teacher Robert Hassinger, the School District’s Director of the Career and Technical Education Jan Cabbell, the District’s Chief Administrative Officer Joseph Bracchitta, Superintendent Bernard Pierorazio, and Council Member Patricia McDow. In addition we spoke to Barbara Guinn, Director of Employment and Advancement Services for the New York State Office of Temporary and Disability Assistance, and Diane Atkins, First Deputy Commissioner for the Westchester County Department of Social Services.

Summary of the Findings

We found that CCE operated with a \$924,000 deficit in 2005/06, and that through staff reductions of \$1.3 million, the deficit was eliminated in 2006/07. The

¹ In addition to the budget-related records maintained in the District’s finance department, we requested additional documentation that CCE administrators would have prepared with respect to CCE’s annual budget for fiscal years 2004/05, 2005/06 and 2006/07. These records and other records associated with the administration of CCE were not readily available. We were advised that since CCE is now closed and the staff disbanded, there was no one at the District available to search for or identify the specific records that we requested. After completing our interviews, we determined that the records we had requested were unlikely to alter our findings.

deficits in prior years were the result of large payroll and fringe benefit expenses that could not be fully paid with grant funds. We found no evidence that grant monies were stolen from CCE.

Based on our findings, no further audit or investigation is required.

Overview of CCE

CCE administered the School District's adult education programs. Services included high school equivalency programs for students seeking to take the GED exam, courses in basic skills instruction, English as a second language, and job training. According to the KPMG report, during the 2004/2005 school year, CCE employed approximately 18 full-time teachers and 46 part-time teachers. In addition, 103 full-time District teachers also taught for CCE and were paid overtime.

In 2005/06 CCE had an operating budget of \$5,012,183, which was primarily funded by several grants from the New York State Department of Education. The largest was the Employee Preparation Education ("EPE") grant that provided \$3,591,000 in funding. The EPE grant reimbursed the District a fixed amount for every "contact hour" the District provided to a student receiving qualified services from CCE. Reimbursements were capped by the total grant amount. An example of a contact hour is one student attending a single CCE class. In 2005/06 the District was reimbursed \$4.31 for every approved contact hour. The District received its full EPE grant allocation of \$3.59 million based on the State's acceptance of documentation showing that District staff performed the requisite contact hours.

According to the School District's year end financial records for CCE, in 2005/06 CCE had an operating deficit of \$924,084. In contrast, in 2006/07, CCE's deficit was eliminated.² In comparing the financial results for these years, in 2006/07, payroll and fringe benefit payments were reduced by approximately \$1.3 million. This reduction was responsible for reversing the prior year's deficit.

It should also be noted that on July 13, 2005, the New York State Department of Education, issued an evaluation of CCE and found that there were no compliance issues. The State evaluators praised a number of CCE's programs as innovative, and stated that CCE was a valuable resource for the community and worthy of the support that it had received from the School District administration.

² In 2006/07 CCE's expenses were less than the grant fund budget by \$193,366.

Summary of Interviews

Charles Whelan, the CCE Executive Director from 2000 through 2006, and CCE teacher/grant writer Robert Hassinger,³ explained that during their tenure at CCE, the adult education programs were never entirely self-funded, and that until approximately 2003, several full-time salaried positions and other related administrative costs were paid, not through grant funds, but out of the District's operating budget. They attributed the large deficits that KPMG identified to several factors:

- In approximately 2003/04, CCE programs and grant funding were expanding. However, at the same time, because of a budget crisis within the School District, the District stopped subsidizing some of the CCE staff positions, but the positions were not eliminated. As a result, CCE had to fund these positions through grant funds. CCE was unable to completely replace District funding for these positions, which contributed to a structural deficit.
- In 2005/2006, the State of New York reduced the EPE contact hour rate by 10% from \$4.77 to \$4.31. This resulted in a 10% reduction (approximately \$350,000) in EPE grant funding.
- Labor settlements, retroactive payments to staff, and increases in the costs of fringe benefits, increased the overall costs of running CCE.
- An anticipated new grant in partnership with the Yonkers Chamber of Commerce and administered by the Westchester County Department of Social Services, which could have potentially reduced the deficit for 2005/06 and eliminated it in 2006/07 never materialized.

Mr. Hassinger also acknowledged that the administrative structure of CCE with 18 full-time teachers was not economically efficient because CCE classes were held primarily in the morning and in the evening. Often, the full time teachers would provide classroom instruction in the mornings but not have regular teaching responsibilities in the afternoon when there were fewer classes held. The evening classes were taught by hourly, per diem teachers or District teachers working on overtime. As a result, the 18 full-time CCE teachers generally did not perform enough contact hours to generate grant fund revenues to cover their full-time salaries. Mr. Hassinger believed that CCE was overstaffed.

To address the CCE deficits, Mr. Whelan and Mr. Hassinger sought to increase grant funding. New programs funded by new grants could be implemented, in part, by the underutilized full-time teaching staff. This would theoretically shrink the operating deficits because there would not be significant new administrative costs associated with the new programs.

³ Mr. Hassinger was regarded as the CCE employee with the most knowledge about the State funding programs for adult education, and is credited by Mr. Whelan as being primarily responsible for increasing CCE's grant funding over the course of his tenure at CCE.

In 2005/06, CCE sought additional funding through a New York State program which utilized federal Food Stamp Employment and Training monies. Under the terms of the proposed grant, CCE and the Yonkers Chamber of Commerce were to be partners in a program administered by the County of Westchester Department of Social Services. The purpose of the grant was to provide job training using high speed internet, software and computers provided – free of charge – to program participants who received Westchester County Department of Social Services benefits. In 2005/06, it was anticipated that CCE would receive approximately \$570,000 under this grant. Although the County of Westchester approved a resolution authorizing the program, the State, which controlled the funding, never approved the proposed Food Stamp grant, in part, because it was determined that the proposed expenditures for computers and internet service for the program participants were not eligible for reimbursement under the federal program. Thus, by the end of 2005/06, it was clear that the Food Stamp grant would not solve CCE's structural deficit.

Superintendent Pierorazio stated that he was made aware of CCE's growing deficit in 2005 from the District's accounting staff. The accounting department tracked CCE's grants, processed payments and monitored CCE's budget. During 2005/06, the accounting staff held regular meetings with CCE to address the deficit problem, but no action was taken to reduce the deficit based on assurances from Mr. Whelan and Mr. Hassinger that additional grant funding, including the federal Food Stamp monies, would be secured. According to Mr. Pierorazio, because of the growing deficit, he assigned Jan Cabbell, the Director of Career & Technical Education and long-time District administrator, to monitor CCE operations, and then requested KPMG to review CCE as part of its overall audit of District operations.⁴

Ms. Cabbell stated that after reviewing CCE's monthly payrolls, she advised the administration that the payrolls were growing and that CCE would be over budget in 2005/06. The KPMG report issued on March 31, 2006 projected a deficit estimated at approximately \$800,000 in the preceding year of 2004/05, and stated that the District's financial records did not give an accurate account of CCE's true financial position.

At the end of the 2006 school year, Mr. Whelan retired and Ms. Cabbell assumed direct oversight of CCE operations. Starting in December of 2006, she reported to the School District's newly appointed Chief Administrative Officer Joseph Bracchitta. Superintendent Pierorazio had requested that Mr. Bracchitta review CCE and make recommendations regarding the future administration of adult education programs. During 2006/07, payroll and fringe benefit payments were reduced by approximately \$1.3 million. Ms. Cabbell explained that starting on September 1, 2006, she consolidated CCE classes and drastically cut CCE

⁴ The Mayor and the Board of Education announced that KPMG would review the School District in September of 2005.

staff, without eliminating any programs. This effectively eliminated the operating deficit.

In the Spring of 2007 Mr. Bracchitta recommended that CCE be closed and that the adult education program be restructured. His decision was primarily based on his lack of confidence in CCE revenue projections⁵ and his belief that the program was over staffed.

Mr. Pierorazio accepted this recommendation; CCE was closed and beginning in the 2007/08, the adult education program was reconstituted under a new name – Pathways to Success. According to Mr. Bracchitta, under the new scaled-down Pathways program, all teaching is now performed by part-time teachers paid on an hourly basis. CCE teachers and overtime payments to District teachers have been eliminated.

Allegations of Missing Funds

Council Member McDow's letter alleged that grant funds for 2006/07 were missing, and referred to a \$1 million shortfall. She stated that former CCE Director Charles Whelan decided to retire after he was questioned about the money. Mr. Whelan denied these allegations. When we spoke to Ms. McDow, she stated that she had no direct knowledge of money being stolen from CCE. According to Ms. McDow, people who complained to her about missing funds were unwilling to meet with or provide information to the Inspector General. Thus, although Ms. McDow's complaint triggered our review, we were provided with no evidence that supported the allegations that funds were missing, and we did not independently develop information which would tend to support those allegations.

We also note that CCE staff did not have direct access to program funds. The vast majority of CCE expenses were for payroll and fringe benefits. All payments were made through the District's Finance Department. We did not, however, conduct a payroll audit of CCE, and thus cannot attest to the accuracy of the payroll expenses.⁶

Findings and Conclusions

In our review, we found that CCE operated with a \$924,000 deficit in 2005/06 and the deficit was eliminated in 2006/07. We found no evidence that grant monies were stolen from CCE.

⁵Although CCE closed 2006/07 without a deficit, for much of that year it appeared that CCE would not fully access the EPE grant funds and again suffer a deficit, even after substantial payroll reductions. In the summer of 2007, a consultant from the New York State Department of Education helped the District identify and input contact hours which led to the District receiving almost all of its full EPE allotment. Mr. Bracchitta made his recommendation to close CCE when it was still believed that CCE would end 2007 with another deficit.

⁶ We did review one month of payroll timesheets for January 2007, and the timesheets were supported by attendance records.

We note, however, that after CCE amassed large deficits in 2004/05 and 2005/06, there are questions about the efficiency of CCE's administration. According to Ms. Cabbell, in 2006/07 she was able to eliminate \$1.3 million in salary and fringe benefit expenses without significant program reductions. This supports the claim that CCE had excessive staffing in the prior years.⁷ The belief that CCE was over staffed contributed to Mr. Bracchitta's decision to recommend that CCE be closed and that the District's adult education program be restructured.

Finally, the revelations about the apparent excesses in CCE staffing, which led to the annual deficits, bear out the conclusion of the KPMG report that policymakers need to know the true costs of running a program in order to make informed decisions about whether funding should be increased or decreased, or the program eliminated. Although Mr. Pierorazio was aware of growing deficits in 2005 and took steps to monitor CCE expenses, the full extent of the 2004/05 deficit was not known until KPMG issued its report in March of 2006. When the actual costs of CCE were revealed, the Superintendent directed that the deficit be eliminated, and then ultimately decided to close CCE.

Based on our findings, no further review is required at this time.

⁷ The fact that the State fully reimbursed the District for CCE grant funds, and also found CCE to be providing valuable programs to the community, does not resolve the question of whether CCE was operating in a cost effective manner. While CCE met its mandates under the State grants, the State did not evaluate the financial impact to the School District of running CCE.



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**DEPARTMENT OF
INSPECTOR GENERAL**

Patricia D. McDow, Majority Leader

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CITY OF YONKERS

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TO: Mayor Phil Amicone
Deputy Mayor William Regan
Philip Zisman, Inspector General ✓

FROM: Patricia D. McDow, Majority Leader
1st District Council Member

DATE: July 17, 2007

RE: Center for Continuing Education

It has come to my attention that grant monies allocated for the Board of Education's GED program, formerly located at the Center for Continuing Education, for the year 2006 – 2007 are missing. Toward the end of the program's existence there was a \$1 million shortfall, and I'm told that when the former Principal Charles Whalen was questioned about the monies he suddenly decided to retire. As Principal, Mr. Whalen had total control of the accounts receivable and expendable cash.

I am requesting that you begin an investigation to find out exactly what happened to this money, and I am requesting an audit of the program's records for ten years prior. The monies for this program were allocated for students who are in great need which gave them an alternative program to complete their high school studies, these students are primarily black and Hispanic students who live in the southwest section of the City.

I am also sending this letter to NYS Comptroller, Thomas DiNapoli. If you have any questions please feel free to contact my office on x6311.

PDM/amb

cc: Thomas P. DiNapoli, State Comptroller