



Rochester City School District Payroll and Procurement

Report of Examination

Period Covered:

July 1, 2014 – October 25, 2016

2016M-435



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

April 2017

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

Following is a report of our audit of the Rochester City School District, entitled Payroll and Procurement. This audit was conducted 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.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Rochester City School District (District) is governed by the Board of Education (Board), which is composed of seven elected members. The 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 and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates 52 schools with approximately 29,700 students and 6,978 employees. The District's budgeted appropriations for the 2016-17 fiscal year are approximately \$865 million, which are funded primarily with State aid, aid from the City of Rochester and grants. Payroll payments totaled approximately \$640.4 million for our audit period.

The Human Capital Initiatives and Payroll Departments are responsible for administering all labor contracts and ensuring employee wages are paid accurately and in a timely manner. The Director of Procurement and Supply is designated as the purchasing agent by the Board and manages the Purchasing Department, which includes a senior buyer, two purchasing assistants and a clerk.

Scope and Objectives

The objectives of our audit were to determine if the District properly calculated and adequately supported payroll-related payments and payments for goods and services for the period July, 1 2014 through October 25, 2016. Our audit addressed the following related questions:

- Did the District accurately calculate and adequately support all payroll-related payments?
- Did District officials ensure payments for goods and services were appropriate, adequately supported and for the best quality at the lowest available cost?

Audit Results

District employees' payroll-related payments that we tested were often incorrect or unsupported. The District did not have written policies or procedures for the processing or monitoring of payroll payments. The process that was in place was disjointed, decentralized and not well documented. The complexities and size of the payroll, as well as the large number of people involved in various facets of the process, make it highly susceptible to errors.

We reviewed salary and wage payments totaling \$3.8 million made to 45 employees for a full fiscal year during our audit period.¹ We found incorrect or unsupported payments made to 41 (91 percent) of these employees, in almost every type of payment made to them. Payroll staff had difficulty answering our audit questions and providing documentation, which required us to request documentation from various buildings and departments, some of which did not retain the documentation in an organized fashion or at all. Although the dollar amounts of many of the individual errors were not large, the pervasiveness of the errors and the possible cumulative dollar value of incorrect payments made to other employees is cause for significant concern.

We extended our audit sample to test additional employees who received similar types of payments to those that we identified as improperly calculated in our initial testing. We identified errors in 97 percent of the 1,086 additional payments we tested. In total, we identified over \$356,600 in incorrect or unsupported payments. The high error rate is evidence that the process is not working to ensure payroll payments are accurate.

The Board and District officials did not implement adequate monitoring procedures to ensure staff consistently complied with General Municipal Law or District purchasing policies and procedures when making purchases on the District's behalf. Hundreds of staff routinely made purchases outside the normal requisition and purchase order process through the use of procurement cards (p-cards), significantly increasing the risk of unauthorized or overpriced purchases.

We reviewed 515 p-card purchases totaling approximately \$396,000 and found deficiencies with 500 purchases (97 percent) totaling \$384,313. This amount includes \$293,279 in p-card purchases in 11 of 13 commodity categories we reviewed, for which the District did not comply with statutory competitive bidding requirements.

In addition, the District did not consistently comply with competitive bidding requirements for all applicable purchases made using the District's regular purchase order process. We selected purchase orders to 11 vendors totaling \$1.5 million which were subject to competitive bidding requirements and found that the District did not bid four purchases (36 percent) totaling approximately \$270,000. We also tested 10 professional service providers who received payments totaling \$7.8 million and found that the District did not properly seek competition for contracts with six providers totaling \$352,000. As a result, the District may have paid more than it needed to for its purchases of goods and services.

Although the dollar amounts of many of the individual exceptions were not large, the pervasiveness of the noncompliance with Board policy and potential cumulative effect is a significant concern.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on the issues raised in the District's response letter.

¹ We randomly selected 15 employees for 2015-16, and we judgmentally selected 15 from each of the 2014-15 and 2015-16 fiscal years based on unusually high numbers of checks, payments totaling far more than approved salaries, the employees' titles or the payment categories.

Introduction

Background

The Rochester City School District (District) is located in the City of Rochester, Monroe County. The District is governed by the Board of Education (Board), which is composed of seven elected, paid members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the District's chief executive officer and is responsible, along with other administrative staff, for the District's day-to-day management under the Board's direction.

The District operates 52 schools with approximately 29,700 students and 6,978 employees. The District's budgeted appropriations for the 2016-17 fiscal year are approximately \$865 million, which are funded primarily with State aid, aid from the City of Rochester and grants. Payroll payments totaled approximately \$640.4 million for our audit period.

The Human Capital Initiatives and Payroll Departments are responsible for administering all labor contracts and ensuring employee wages are paid accurately and in a timely manner. The Director of Procurement and Supply (Director) is designated as the purchasing agent by the Board and manages the Purchasing Department, which includes a senior buyer, two purchasing assistants and a clerk.

Objectives

The objectives of our audit were to determine if the District properly calculated and adequately supported payroll-related payments and payments for goods and services. Our audit addressed the following related questions:

- Did the District accurately calculate and adequately support payroll-related payments?
- Did District officials ensure payments for goods and services were appropriate, adequately supported and for the best quality at the lowest available cost?

Scope and Methodology

We examined the District's payroll and procurement transactions for the period July 1, 2014 through October 25, 2016.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix C of this report. 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.

**Comments of
District Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comment on the issues raised in the District's response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education, 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, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next 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. The Board should make the CAP available for public review in the District Clerk's office.

Payroll

The Board is responsible for ensuring that District employees are paid in accordance with applicable collective bargaining agreements (CBAs), memorandums of agreement (MOAs), individual employee contracts, salary notices and Board actions that establish stipends and other payments. District officials should establish clear procedures for staff to follow when calculating salaries and wages, as well as adequate monitoring procedures, to verify that payments are accurately made in accordance with applicable authorizations. Payroll represents a significant portion of the District's annual budget. Salaries and wages, including overtime, totaled approximately \$336.8 million (43 percent) of the District's expenditures of \$774.9 million for the 2014-15 fiscal year and \$303.6 million (38 percent) of the District's expenditures of \$800.4 million for the 2015-16 fiscal year. The significance of the District's payroll costs highlights the importance of having effective procedures to accurately calculate salaries and wages.

District employees' payroll-related payments that we tested were often incorrect or unsupported. The District did not have written policies or procedures for the processing or monitoring of payroll payments. The process that was in place was disjointed, decentralized and not well documented. Due to the large quantity and variety of contracted miscellaneous payments and salary adjustments across four CBAs, numerous staff are necessarily involved in processing different types of payments. However, this makes it virtually impossible for payroll staff to identify all of the payments due, changes required and data entry or calculation errors made in the time available to process the payroll. The complexities and size of the payroll, as well as the number of people involved in various facets of the process, make it highly susceptible to errors.

We reviewed salary and wage payments totaling \$3.8 million made to 45 employees for a full fiscal year during our audit period² and found a significant number of errors in nearly all types of payments. Payroll staff had difficulty answering our audit questions and providing documentation, which required us to request documentation from various buildings and departments, some of which did not retain the documentation in an organized fashion or at all. We found incorrect or unsupported payment, made to 41 (91 percent) of the 45 employees

² We randomly selected 15 employees for 2015-16, and we judgmentally selected 15 from each of the 2014-15 and 2015-16 fiscal years based on unusually high numbers of checks, payments totaling far more than approved salaries, the employees' titles or the payment categories.

we tested, in almost every type of payment made to these employees. Although the dollar amounts of many of the individual errors were not large, the pervasiveness of the errors and the possible cumulative dollar value of incorrect payments made to other employees is cause for concern.

- Incorrect payments were made to 23 (51 percent) of the 45 employees tested, with four of them receiving multiple incorrect payments.
- Thirty-nine employees (87 percent) received payments that were not adequately supported by documentation including four lacking pay rate authorizations, four lacking overtime approvals and 31 missing leave request approvals.
- We extended our initial audit sample to test additional employees who received similar types of payments to those that we identified as improperly calculated in our initial testing. We identified errors in 1,058 (97 percent) of the 1,086 additional payments we tested.
- In total, we identified over \$356,600 in incorrect or unsupported payments.

In our limited audit testing, we identified numerous errors in virtually all aspects of employees' pay, including regular salaries and various extra payments, as demonstrated in Figure 1. The high error rate is evidence that the process is not working to ensure payroll payments are accurate.

Figure 1: Payroll-Related Payment Errors

Payment Categories	Initial Testing	Expanded Testing	Total Errors
Incorrect Salary Payments	\$2,678	\$6,016	\$8,694
Board Overpayments ^a	\$849	\$5,094	\$5,943
Retroactive Payments	\$455	\$8,055	\$8,510
Additional Pay Resolutions	\$4,138	\$1,711	\$5,849
Teacher Incentive Fund Payments ^b	\$5,452	\$233,937	\$239,389
Paid Absence Bank	\$463	\$9,052	\$9,515
Separation Payments and Stipends	\$3,273	\$2,400	\$5,673
Total Incorrect Payments	\$17,308	\$266,265	\$283,573
Unsupported Payments	\$73,068		\$73,068
Total Errors and Unsupported Payments	\$90,376	\$266,265	\$356,641

^a The payments to the Board were based on the City's preliminary budget figures rather than actual.

^b Teacher Incentive Fund grant program payments were for participating teachers and administrators rated highly effective. District officials calculated the payments based up the mean salary rather than the median as agreed upon.

Although the errors we found did not involve significant amounts of money, they were pervasive within the payroll system and were not detected timely by District staff in their regular course of business. This causes concern that these types of errors could have a significant cumulative cost to the District or that other errors that did not come up in our samples could be significant. The District should review procedures to reduce the risk of frequent or significant payroll errors that may not be detected and corrected and make changes to its payroll processing procedures.

Recommendations

The Board and District officials should:

1. Establish written procedures that designate specific responsibilities to the payroll department staff for the preparation and disbursement of payroll and related payments, to better centralize the payroll process.
2. Develop adequate monitoring procedures to verify that all payroll-related payments are accurate, supported and made in accordance with written CBAs, MOAs, Board resolutions or individual employment contracts.
3. Ensure that salaries are properly established, authorized, documented and reflected in the payroll system for payment.

The Board should:

4. Direct the District's attorney to review the identified overpayments to take appropriate action within the law to recover those funds. The Board also should reimburse identified underpaid employees.

Procurement

In general, an effective procurement process helps the District obtain services, materials, supplies and equipment at the desired quality, appropriate quantity and lowest cost, in accordance with applicable Board and legal requirements. It also ensures that the District expends resident funds in the most efficient manner. In addition, a properly functioning purchase order system helps control expenditures by ensuring that purchases are properly authorized and preapproved and that adequate funds are available, before goods or services are ordered or purchased.

If the District decides to provide credit cards, called procurement cards (p-cards), to certain staff to use to make purchases on its behalf, it should establish detailed procedures for card use and for monitoring use to retain a reasonable level of control over District purchases. Policies should specify situations when the use of credit cards will be permitted and detailed procedures for required approval and supporting documentation. Because credit card use can increase the potential for unauthorized purchases, the District should ensure that, at a minimum, all credit card purchases are subject to the same procedures and controls as all other District purchases. New York State Education Law generally requires the Board to audit all claims before they are paid or, by resolution, establish the office of claims auditor and appoint a claims auditor to assume its powers and duties to examine and approve or disapprove claims.

District purchasing officials have encouraged the use of the p-cards because there is less processing and, therefore, a cost savings associated with their use. While this may be the case, there are also increased risks associated with their use, making it all the more important to make sure that proper procedures are followed. Such procedures could include documenting items purchased, performing supervisory reviews and establishing limits on amounts of purchases.

While the Board and District officials established adequate procurement policies and procedures, they did not implement adequate monitoring procedures to ensure staff complied with them when making District purchases. As a result, we found numerous deviations from established procurement procedures during our testing. Purchasing was not as centralized as intended in the policies and procedures, with many staff from all departments initiating purchases. Hundreds of staff routinely made p-card purchases outside the normal requisition and purchase order process, increasing the risk of unauthorized or overpriced purchases. In addition, staff often did not follow various p-card program requirements, which further

increased that risk. Furthermore, staff were not familiar with and did not follow competitive procurement requirements when using p-cards for routinely purchased items that aggregated over bid thresholds. Finally, the claims auditor did not conduct a proper audit of the District's p-card purchases, a serious weakness given the inherent risks with the use of p-cards.

We reviewed 515 p-card purchases totaling approximately \$396,000 and found deficiencies with 500 purchases totaling \$384,313, almost every transaction reviewed. This amount includes \$293,279 in p-card purchases in 11 of 13 commodity categories we reviewed, for which the District did not comply with statutory competitive bidding requirements.

In addition, the District did not consistently comply with competitive bidding requirements for all applicable purchases made using the District's regular purchase order process. We selected purchase orders to 11 vendors totaling \$1.5 million which were subject to competitive bidding requirements and found that the District did not bid four purchases (36 percent) totaling approximately \$270,000. We also tested 10 professional service providers who received payments totaling \$7.8 million and found that the District did not properly seek competition for contracts with six providers totaling \$352,000. As a result, the District may have paid more than it needed to for its purchases of goods and services and may not have obtained the best value on the professional service contracts.

Although the dollar amounts of many of the individual exceptions were not large, the pervasiveness of the noncompliance with Board policy and potential cumulative effect is a significant concern.

Purchasing Process

The Board adopted a purchasing policy (policy) in 1998, which was revised in September 2010 and provides that purchasing will be centralized under the general supervision of the Board-designated purchasing agent. The policy is supplemented by a purchasing manual that is updated regularly by District officials. The purchasing manual states that the Board has delegated to the Director, as its designated purchasing agent,³ the responsibility of procuring all material, supplies, equipment and services. The purchasing agent has the ability to delegate purchasing authority to authorized individuals under specific circumstances, such as blanket orders and assigned purchase order (PO) transactions. The manual also requires the use of an automated requisition and PO system to provide approval and verification of available funds before purchases are made. The purchasing department (Department) approves and issues all POs.

³ Per the District's Purchasing Department website

The District also implemented a p-card program, which provides p-cards⁴ to authorized employees (cardholders) for use when making smaller purchases of high volume or low dollar items. Cardholders are supposed to comply with the District's p-card manual, which governs the process for obtaining and using p-cards, and requires cardholders to comply with all purchasing manual guidelines as well.

During our audit period, there were 340 p-cards assigned to employees in a multitude of positions including but not limited to teachers, facilities, food service, assistant principals, clerks, math coaches and a payroll clerk. Maintaining such a large quantity of p-cards increases the risk that improperly secured cards may be used for non-District purposes. The District expended approximately \$9.5 million on p-cards from July 1, 2014 through June 30, 2016.

P-Card Process and Procedures — Department officials allow any employee that can demonstrate a need to apply for and receive a p-card. Department officials told us they encourage the use of p-cards because it costs the District much less to process a bulk p-card payment than many individual payments through the regular requisition process. However, District management has provided guidance in the purchasing manual and p-card manual to balance the efficiency such cards can provide with concerns about accountability and legal compliance related to competitive procurement. District officials informed us that they feel the guidance provided remains relevant to address those concerns, and they expect the Department to follow them.

The use of p-cards significantly reduces accountability. P-card users are not required to obtain pre-approval for purchases, and no one ensures that cardholders comply with bid requirements for purchases that aggregate over applicable statutory thresholds. The p-cards have defined daily and monthly credit limits. Most p-cards have a \$1,000 per vendor, per day limit, with a \$5,000 monthly limit. Two cardholders in the facilities department (facilities) have a \$2,000 daily limit and a \$50,000 and \$60,000 monthly limit.

The p-card supervisor is responsible for verifying and certifying that all purchases were appropriate, correctly coded and made in compliance with the p-card manual. The p-card transaction reviewer (reviewer)⁵ is responsible for running two system reports weekly and reviewing all p-card transactions, contacting cardholders for clarification when appropriate and providing instructions for remedying unauthorized or unofficial purchases when necessary.

⁴ According to the District's purchasing manual, a p-card is a specialized credit card that allows authorized District employees to purchase authorized goods and services. The p-card program is designed to streamline the process for smaller purchases within the District's purchasing rules and regulations.

⁵ These duties have been assigned to the Department's senior buyer.

Facilities made the most p-card purchases in both quantity and cost, totaling approximately 7,700 transactions at more than \$2.7 million during our audit period. We reviewed 515 p-card purchases totaling \$396,129. These purchases comprised 406 p-card purchases totaling \$282,319 made by facilities staff and 109 p-card purchases from various District departments and schools totaling \$113,810. We found that, while the purchases appeared to be for legitimate District purposes, District employees did not comply with the purchasing or p-card manuals for 500 purchases totaling \$384,313. Examples are below.

- We found that 33 purchases (6 percent) totaling more than \$44,000 were for items prohibited by the p-card manual to be purchased with p-cards, such as computer hardware and software and furniture.
- We identified 81 transactions (16 percent) totaling nearly \$93,000 for which the cardholders split the purchases to circumvent the daily p-card limits, which is prohibited by the p-card manual. For example, on one vendor receipt, one facilities employee's p-card was charged for \$2,000 (his daily limit for one vendor) and the \$857 balance of the purchase was charged to a second facilities p-card. The facilities employees told us that they use different p-cards to circumvent the established limits. As another example, we identified two purchases – for \$1,091 and \$955 – from the same vendor on the same date for the same two-way radios by two different cardholders who reported to the same supervisor at one of the secondary schools.

These discrepancies occurred because of the District's poor monitoring of the p-card process and the failure to enforce the review procedures built into the process, which allowed employees to circumvent established procedures. For example,

- The p-card supervisor role was often assigned to clerical staff instead of someone senior to the cardholder, as required by the p-card manual. For example, the facilities p-card supervisor is the facilities secretary, who does not qualify to be a p-card supervisor because she is not a supervisor of the facilities employees. Furthermore, she told us that she only looks for a receipt/document that totals the cost on the expense report when reviewing p-card purchases. She does not check for proper itemization, competition or split transactions. Since she is not a supervisor, it would be difficult for her to challenge purchases made that were not in conformance with the policy.

- For 257 purchases (50 percent), the related expense reports were not maintained or did not contain itemized descriptions as required by the p-card manual. Additionally, 161 itemized receipts (32 percent) and 247 packing slips (68 percent) were not available and could not be provided upon request. Lastly, the expense reports could be viewed in two different formats, and multiple facilities employees were printing from a modified view that allowed them to hide transactions from the report. We tested four transactions totaling approximately \$4,500 that included the purchase of lock parts, air conditioning units and glass which we could not locate on the available expense reports. Therefore, the facilities secretary was not aware of these transactions and did not require any documentation to support them. At our request, District officials obtained invoices from the vendors for these purchases. While these purchases appeared reasonable, the ability to delete transactions from expense reports creates a serious risk that fraudulent purchases could be made without detection.
- Several p-card holders⁶ in facilities shared their p-cards and p-card numbers with other facilities employees. The facilities' employees told us that they give their card numbers to other employees over the phone in addition to providing the physical card so these unauthorized employees can make purchases.
- The reviewer pulls down a weekly report from the p-card bank system, and he told us that he reviews the report for split transactions, unusual or improper purchases and inappropriately paid sales taxes. However, these reports did not contain sufficient information to identify such errors or irregularities. The reports include only the cardholder name, vendor name, purchase date, dollar amount and, in limited cases, a brief and often generic purchase description. For example, the reviewer did not catch or address any of the 81 split transactions we identified during our testing. Furthermore, the reviewer told us that when he does identify inappropriate charges, he sends the cardholder an e-mail directing them to correct it but does not follow up to verify that the issues were addressed, taxes refunded, etc.

Claims Audit — The Board established the Office of Claims Audit, staffed with three claims auditors, to assume its powers and duties in regard to approving or disapproving claims invoices/vouchers against the District for payment. A proper claims audit should entail a thorough and deliberate examination to ensure that every claim

⁶ Including the two employees with \$50,000 and \$60,000 monthly card limits, as well as multiple foremen

includes enough itemization and supporting documentation to determine whether it complies with District policies and represents necessary and legitimate District expenditures for goods or services actually received. The p-card manual provides that the District's claims auditor is responsible for reviewing all p-card transactions on a monthly basis and ensuring that a p-card reconciliation is completed prior to posting all charges to the general ledger (which takes place around the 15th of each month). The claims auditor is also responsible for notifying cardholders in violation of proof of purchase documentation and reconciliation procedures and recommending to the p-card administrator that the p-card privilege be canceled for continuous abuse.

The claims auditor responsible for auditing p-cards did not conduct a proper audit of p-card transactions. The claims auditor reviewed a spreadsheet similar to the report that the Department reviewer downloads. The claims auditor did not review the actual invoices, receipts, packing slips or other supporting documentation, and approved the purchases based solely on the descriptions provided by the cardholders⁷ in the downloaded report. This cursory level of review does not even approach a proper audit of claims.

The claims auditor told us that she only requested the related invoices or receipts if a description was not provided on the report. Furthermore, she conducts her review at the end of the month, after the bank has been paid for that month's transactions. She does not review the cardholders' expense reports or reconciliations to supporting proof of purchase documentation. Therefore, she is not in a position to notify cardholders and the p-card administrator of violations.

The p-card system allows the cardholders to scan their invoices and receipts into the system. However, the District does not use this function. Scanning the receipts into the system would prevent them from being lost or misfiled, especially when employees leave or change positions within the District, which was a common occurrence for transactions we tested. It would also allow the cardholders' supervisors, the Department and the claims auditors to complete a proper review of the transactions and their supporting documentation before allowing the p-card bank to deduct its payment each month.

Competitive Procurement

The Board and District officials must ensure that the District's purchases comply with procurement laws set forth in General Municipal Law (GML) to help guard against favoritism, extravagance and fraud. GML generally requires the Board to advertise for bids on contracts for public works involving expenditures of more than

⁷ Or in limited situations, the vendor detail

\$35,000 and on purchase contracts involving expenditures of more than \$20,000, including purchases that aggregate over \$20,000 within a 12-month period. The Board should award the contracts to the lowest responsible bidder or on the basis of best value.⁸ GML also requires the Board to adopt written policies and procedures governing the procurement of goods and services that are not subject to competitive bidding requirements, such as items that fall below the dollar thresholds and professional services.

The Board's purchasing policy sets forth the District's purchasing goals and objectives. It requires the Superintendent and purchasing agent to comply with competitive bidding laws and to establish and implement competitive procurement procedures in compliance with all applicable State laws and regulations. The District's purchasing manual sets forth detailed procedures and requires written quotations for all purchases of goods or services that total \$2,000 or more. It prohibits splitting transactions to avoid obtaining quotations.

P-Card Bids — In general, Department and District staff did not take sufficient steps to ensure that applicable p-card purchases were made in compliance with competitive bid and quotation requirements. For example, facilities employees did not understand bidding laws. Some told us they had no knowledge of what a bid was, while others believed that if the Department told them a contract was awarded to a specific vendor, they could purchase all inventory from that vendor even if the items were not included in the bid.

Facilities employees told us that they did not review State contracts or the County bid website. Additionally, they stated that they generally selected the vendor with the lowest price based on their own knowledge from past purchases but did not seek competitive quotes to help ensure they were actually using the lowest cost vendor. While the Department copied key facilities employees⁹ on emails confirming various bid awards and related contract extensions, the facilities employees did not understand what they were supposed to do with the information. Thus, they did not appropriately share it with the foremen or other employees making facilities purchases. Finally,

⁸ A school district may elect to award purchase contracts which exceed the statutory threshold to a responsive and responsible offeror on the basis of "best value" (competitive offering) as an alternative to an award to the lowest responsible bidder. For this purpose, best value is defined, in part, as a basis for awarding contracts "to the offerer which optimizes quality, cost and efficiency, among responsive and responsible offerers." Therefore, in assessing best value, nonprice factors may be considered when awarding the purchase contract. The basis for a best value award, however, must reflect, whenever possible, objective and quantifiable analysis.

⁹ Plant maintenance supervisor and secretary

several facilities staff told us they had been instructed to use p-cards for all purchases except for large equipment purchases, and thus had to frequently split purchases within the daily p-card limits.

As a result, and because facilities makes voluminous p-card purchases, we focused largely on facilities' transactions when we selected p-card purchases of 13 types of commodities that aggregated over bid thresholds over a 12-month period to determine if the District competitively bid the items. The purchases included 434 p-card transactions totaling \$310,724. Our sample did not include all of the items purchased with p-cards in each commodity category due to the quantity of items purchased and the amount of time required to complete the testing.¹⁰ Thus, total purchases for some of the commodities are significantly higher than the amounts we reviewed. The District did not properly seek competition for 11 of the 13 commodity categories totaling \$293,279 (94 percent). For example:

- The District paid a vendor more than \$140,000 between July 2014 and June 2016 for the purchase of various food and kitchen items for the adult education culinary program without using the State contract or competitive bidding as required.
- We tested lumber purchases totaling \$36,045 from four vendors and found that nearly all, \$35,024, was not properly bid. One of these vendors is a national home improvement retail chain. The Department's buyer told us that purchases from this vendor complied with bidding requirements because the vendor was part of a group purchasing organization (GPO).¹¹ However, the buyer could not provide documentation that the GPO bid complied with GML.¹² Furthermore, this GPO contract did not provide any discounts for the District's participation and the District failed to take advantage of the

¹⁰ While the p-card expense reports, receipts and packing slips were supposed to be maintained by the cardholders at their work locations, we had considerable trouble obtaining this information because employees did not properly maintain the documentation, had left the District or had switched buildings or positions. This significantly increased the amount of time it took us to test p-card transactions.

¹¹ GML was amended in 2012 to add an exception from competitive bidding requirements that authorizes school districts to purchase apparatus, materials, equipment and supplies through the use of contracts let by the United States or any agency thereof, any state or any other political subdivision or district therein. In order for the exception to apply, the contract must have been made available for use by other governmental entities and let to the lowest responsible bidder or on the basis of best value in a manner consistent with GML section 103[16]. For additional details relating to this exception, see the Piggybacking Law bulletin on our website at www.osc.state.ny.us/localgov/pubs/piggybackinglaw.pdf

¹² Any determination of whether this specific GPO contract met the prerequisites for the exception in the law was outside the scope of our audit.

available rebate program, which offers an annual rebate on purchases over \$10,000. The buyer told us that the rebate offer was not conducive to how the District purchased and the District did not make enough purchases from this vendor to make it worthwhile. However, we identified nearly \$230,000 in purchases from this vendor. Thus, it appears the District did not take advantage of nearly \$7,000¹³ in available cost savings for these purchases.

- We tested glass purchases totaling \$56,234 from one vendor and found that \$45,366 (81 percent) was not properly bid. The Department completed a bid for the purchase of glass for glazing purposes and awarded it to this vendor. However, facilities frequently purchased items that were not included on the bid. Thus, the District needed to bid these items separately or should have added them to the item list when they rebid the contract.

Furthermore, as part of the same bid process, the District awarded a separate contract for miscellaneous glass supplies – glazing tape and rubber gloves – to the other bidder because its bid prices were significantly less¹⁴ than those bid by the vendor awarded the glass contract. However, the District consistently purchased these items from the same vendor awarded the glass contract instead, paying much higher per unit costs. For the three transactions totaling \$2,220 in our sample, the District would have saved \$846 (38 percent) had it purchased these items from the other vendor.

For the majority of the facilities purchases we reviewed, the Department made an attempt to properly bid and award contracts. However, the Department needs to work more closely with facilities to train staff on competitive procurement requirements, effectively communicate with them on bids awarded and how to use them and closely review routine purchases to help ensure the Department is bidding the exact items that facilities currently needs and uses. For the purchases we reviewed by other departments that should have been bid, there was no bidding process in place. Therefore, the Department should provide additional training and communication to all District

¹³ The program offered annual rebates of 1, 2 or 3 percent on purchases of \$10,000 to \$25,000, \$25,000 to \$100,000, and over \$100,000, respectively. On February 15, 2017, the District told us there were security concerns involved with the vendor's management of the program as well.

¹⁴ Cost savings available from the vendor selected (but not used) for gloves and tape were \$10.50 per pair of gloves (73 percent) and \$10.14 (57 percent) and \$5.85 (29 percent) for two sizes of tape. (This vendor's bid price for the third tape size was \$.60 higher than the awarded glass supplier.)

offices and departments to improve its ability to effectively control purchasing and ensure legal and policy compliance for all District purchases.

Bidding — Given the extensive weaknesses and noncompliance with bidding laws we identified with small p-card purchases, we selected a sample of larger purchases to assess whether District officials regularly complied with bidding requirements for purchases made through the regular requisition and PO process. We selected POs to 11 vendors totaling approximately \$1.5 million which were subject to competitive bidding requirements and found that the District did not bid four purchases (36 percent) totaling approximately \$270,000. For example,

- The District contracted with a food distributor for purchases totaling \$177,657. Department officials told us that the District used a contract executed by a GPO to purchase from this vendor, and that the food distributor fell within the new “piggybacking” exception to bidding.¹⁵ However, the Department could not provide documentation demonstrating that the District had verified that the contract met the requirements of GML.¹⁶
- The District properly purchased a truck off a County contract for \$28,604. However, in addition to the truck, the District purchased a refrigerated track van, as an “add-on” item, for \$33,495. This item was not listed in the contract and did not qualify as an add-on as specified in the County contract, which limited add-ons to items that did not cost more than half the cost of the vehicle. The refrigerated track van should have been bid separately or purchased from a qualifying contract. This is particularly concerning since it appears to be an intentional circumvention of competitive bidding procedures.
- We reviewed the purchase of gym flooring totaling \$29,750.¹⁷ The Senior Buyer claimed that this purchase was a sole source item and, therefore, did not have to be bid. The Director later confirmed that it was not a sole source item and should have been bid.

¹⁵ See footnote 11.

¹⁶ See GML section 103[16].

¹⁷ The District purchased the flooring from the same vendor, and on the same PO, from which it purchased fitness equipment off New York State Office of General Services contract. The flooring was not available on the State contract.

Professional Services — The District’s purchasing manual requires¹⁸ that no less than three responses to a requests for information (RFI)¹⁹ be obtained prior to the selection of a professional services provider whose services will cost between \$35,000 and \$100,000. When professional services are expected to reach or exceed \$100,000, issuing an RFP is required. All RFIs and RFPs required for the securing of professional services must contain a detailed scope of services and solicit specific fees and other associated costs for such services.

We tested 10 professional service providers who received payments totaling \$7.8 million and found that the District did not properly seek competition for contracts with six providers totaling \$352,000. For three of these providers, an RFI was not completed for consulting services. The District issued POs for these vendors for amounts just under the \$35,000 RFI threshold (\$34,999, \$34,500 and \$32,500). Therefore, Department officials told us that an RFI was not required. However, actual payments made to these vendors totaled more than \$35,000 (\$48,583, \$60,811, \$73,649, respectively) in a one-year period. For two providers, the District did not retain sufficient documentation to support its vendor selections or to comply with New York State Education Department (SED) records retention requirements.²⁰ For example, it selected the highest-priced provider for architectural services but did not retain the RFI documentation to demonstrate why it selected the highest-cost provider.

Although we found that the services procured were for legitimate and appropriate District purposes, when officials do not seek competitive prices for costly professional services, the Board may not have adequate assurance that the District has obtained professional services upon the most favorable terms and conditions in the best interest of District residents.

Recommendations

The Board and District officials should:

5. Revise the policy for use of p-cards for District purchases and require strict adherence to the updated safeguards.
6. Require staff to use the system capability to scan in all purchase receipts and other supporting documentation immediately following a purchase.
7. Require the claims auditor to comply with the p-card manual requirements to audit all p-card transactions and supporting

¹⁸ With certain exceptions which appeared not to apply to our testing

¹⁹ An RFI is essentially an RFP with a slightly abbreviated vendor application.

²⁰ SED requires this purchasing documentation to be retained for six years.

documentation to be sure all policies were followed and that purchases were appropriate.

8. Ensure that District staff comply with competitive bidding requirements for all commodities that exceed, or aggregate to amounts that exceed, the statutory bidding thresholds.

The Purchasing Department and Director should:

9. Require all cardholders and supervisors to attend training on p-card procedures and on quote and bidding requirements after the policy for p-cards is revised.
10. Ensure that all p-card policies, such as supervisors meeting the senior employee criteria and the prohibiting of sharing p-cards and card numbers, are followed.
11. Complete a thorough review of p-card transactions, alert supervisors when cardholders violate the District's policies and ensure that appropriate action is taken to address any violations.
12. Develop a better system to work with purchasers to ensure that the Department has a complete and updated list of frequently purchased items or items with large dollar amounts. This will help to ensure that the Department is bidding all commodities and items the District currently requires.
13. Complete RFPs and RFIs in compliance with the District's manual.
14. Ensure that proper purchasing documentation is retained for at least six years to support purchasing decisions and comply with records retention requirements.

The claims auditor should:

15. Conduct a more thorough claims audit to make sure p-card purchases are in compliance with the p-card manual and that bidding, RFI and RFP requirements are met.

The Board should:

16. Award contracts consistent with its policy and procedures and document its decisions.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials' response to this audit can be found on the following pages.



Rochester City School District

Board of Education

President

Van Henri White

Vice President

Cynthia Elliott

Members

Mary Adams

Jose Cruz

Malik Evans

Elizabeth Hallmark

Willa Powell

Superintendent of Schools

Barbara Deane-Williams

March 30, 2017

Office of the State Comptroller

Division of Local Government & School Accountability

16 West Main Street, Suite 522

Rochester, NY 14614

Response to Draft Audit Report

Unit Name: Rochester City School District

Audit Report Title: Payroll and Procurement

Audit Report Number: 2016M-435

This letter serves as the Rochester City School District's response to the New York State Office of the State Comptroller's Audit of Payroll and Procurement dated March 2017.

On behalf of the Board of Education and District Administration, we would like to thank the Comptroller's staff for the professionalism and courtesy displayed during this review. The Board understands our responsibility for overseeing the fiscal operations at the Rochester City School District and we take that responsibility seriously.

We acknowledge that there are recommendations in this audit report that can improve the control environment for Payroll and Procurement. We are concerned; however, that general readers of this report may misunderstand some of the findings, based on the manner in which they are characterized. While we accept the 16 recommendations provided in the Comptroller's Report, we disagree with some of the viewpoints documented in the audit.

The Board and Administration strive for an optimal control environment and continuously reevaluate our existing fiscal policies and practices for improvements. We are committed to safeguarding the public funds designated for educating the children of our community.

Payroll

The report provides a statement that the tested payroll-related payments were often incorrect or unsupported. This does not support a global conclusion in this regard, however. The sample tested and errors noted were not representative of the entire payroll generated from our system. It is actually documented in the scope on page 4, that samples were based on “professional judgment, as it was not the intent to project the results onto the entire population”. However, the report is written in a manner that proclaims judgement on the entire payroll.

We noted that a preponderance of the errors resulted from non-standard payments. In particular, items such as these require interpretation, heavy manual intervention and non-recurring calculations. Also, more than half of the incorrect payments identified resulted from two specific errors that affected many teachers. We acknowledge that these errors occurred, but because the sample included many examples from these two calculation errors, it distorts the error rate. Please note that \$239,389 (85%) of the error figure in this report is attributed to one of the two calculation errors noted above.

Our expectation is that we have no errors in payroll and we will improve controls to yield this result. However, our position is that our recurring biweekly payroll, which represents the majority of the dollars expended for payroll, is materially correct. This is supported by the unqualified opinion we receive from our Independent External Auditor.

We agree that operating procedures and monitoring must be documented for the Payroll Department. We concur with this recommendation and agree this is a best practice that will facilitate consistent processing in Payroll. We will promptly implement the needed documentation to bring about the control improvements and monitoring necessary to minimize the likelihood of errors.

Due to the size of our organization and the limited resources dedicated to payroll, we have established a decentralized process for certain areas. The documentation that was requested in the various buildings is not maintained in Payroll, since the Department Manager is responsible for authorizing payments. The reader should note that our large district has an automated control environment for time approval. Payments are approved in the system by the applicable department manager, or a designee with manager oversight, prior to payment. Although documented support was not located, one should not conclude that the payments were not authorized. In fact, 35 of the 39 items that were not adequately supported would have been approved in this manner. We agree that an internal protocol exists to complete supporting paperwork; however, the ultimate control is in the manager approval. Therefore, this concern appears to be a documentation compliance issue. We will evaluate our internal record retention policies to ensure that appropriate support is maintained in compliance with our record retention policies.

Procurement

We are pleased that the State Comptroller's audit acknowledged that they did not identify any instances of fraud or intentional misappropriation of resources. We are confident that this is the result of the controls that are effectively working within our District. The District established a Purchasing Card Program (p-card) consistent with the Office of the State Comptroller's recommendation in June 2008. As noted in the report, we established appropriate protocols and procedures to direct the activities for p-card use.

By design, the p-card is intended to increase efficiency by streamlining the procurement process for lower value items. It also requires that purchases be initiated outside of the traditional procurement function. As a result, the procedures and controls will not be the same as purchases made through traditional methods. We also note that p-cards are only issued based on business need, subject to supervisory approval and training from the P-card Administrator. The number of p-cards issued is supported by the size of our organization. We will address the various control related concerns noted in the Facilities Department and improve the control environment for facilities related purchases. We agree that improved monitoring procedures are required to ensure compliance with the established control environment, documentation requirements, spending limitations, aggregating purchases to meet bidding thresholds and competitive bidding. These improvements will increase accountability for the p-cards. We concur that the Claims Auditor must update operating practices to effectively audit p-card purchases.

We take exception to the manner in which the second bullet on page 13 misleadingly suggests that facilities employees intentionally hid or deleted transactions when they were printing expense reports. The fact is, the employees were just printing the report incorrectly. Based on our review, we noted that random transactions were erroneously omitted due to the manner in which they were printed. When the employees were properly attaching receipts to the expense reports, we saw instances in which they hand wrote the missing transactions. This would not have occurred if they were intentionally trying to hide transactions. This was simply a training issue. These employees have since been taught the proper way to print expense reports and this problem has already been corrected.

See
Note 1
Page 26

Within general procurement practices we will evaluate and improve training and monitoring procedures to ensure that commodities are properly aggregated and competitively bid. In addition, the District has procedures for the procurement of professional services. It should be noted that Professional Services can be specialized. As a result, all services may not have multiple quotes due to specialization. We will evaluate this area and determine how to improve controls for significant professional service contracts.

Rochester City School District Response

We will actively implement controls to enhance our Payroll and Procurement processes, and will provide detailed actions for each of the recommendations in our Corrective Action Plan.

On behalf of our District, we extend our appreciation to you for your efforts and recommendations.

Respectfully Submitted,

Rochester City School District

Van Henri White, President
Rochester Board of Education

Barbara Deane-Williams
Superintendent of Schools

APPENDIX B

OSC COMMENT ON THE DISTRICT'S RESPONSE

Note 1

The report neither stated nor implied that employees intentionally hid or deleted transactions; it identified the potential for such actions to occur due to the lack of controls in place.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We interviewed District personnel and reviewed Board minutes and District policies to gain an understanding of the District's payroll process.
- We reviewed collective bargaining unit agreements, memorandums of agreement, Superintendent Regulations and payroll-related Board resolutions to gain an understanding of the District's payroll process.
- We tested 45 employees' wages for a full fiscal year. Fifteen of the employees were judgmentally selected and tested for the 2014-15 fiscal year. Our judgment was based on the employees' titles, the number of paychecks received in a year and employees who received gross amounts significantly over their annual salaries. Thirty of the employees were tested for the 2015-16 fiscal year. Fifteen were judgmentally selected based on title and pay, and 15 were randomly selected.
 - o We reviewed leave records for the employees and dates tested. We determined whether employees complied with Superintendent Regulation 9700-R for leave approvals.
 - o We requested and reviewed available overtime records and approvals.
 - o We determined the employees' wages per the related CBA or salary notice on file or for compliance with a Board resolution.
 - o We recalculated retroactive payments made to employees.
 - o We determined whether employees who received bonus payments qualified for the payments and the bonus payments were properly calculated.
 - o We determined whether employees who received payments on additional pay resolutions (APRs) were identified on the resolution (or substituted), were paid for no more than the maximum allotted hours and were paid at the correct rate. We expanded our APR testing to include all employees on a specific resolution because several employees' pay from this resolution had errors.
- We expanded our salary testing to an additional 10 employees who could have been affected by an identified system error to determine whether they received inappropriate wage increases.
- We expanded our retroactive payment testing for payments made in October 2014 because of a system error that resulted in overpayments to several employees in the original sample. We identified the affected population and extrapolated the error rate based on randomly testing 20 employees from the population.

- We recalculated the Teachers Incentive Fund payments based upon the District's related Rochester Teachers Association agreement and the salary data used by the District in its calculation.
- We tested 20 employees who received balloon payments during our audit period. We randomly selected five employees and judgmentally selected 15 based on the size of the payments and the titles of the employees receiving the payments. Our initial judgmental sample included all eight employees who received balloon payments totaling over \$30,000 each during the 2014-15 and 2015-16 fiscal years. After finding one large overpayment, we expanded our sample to include an additional 12 employees who received balloon payments. We judgmentally selected seven based on employee title or payment amount and randomly selected five.
- We tested 20 employees who charged leave to the paid absence bank (PAB) sub code for adherence to the CBA terms. Our original sample included one PAB participant who did not qualify based on contract terms. Thus, we selected 19 more PAB participants to determine if this was a recurring issue. We randomly selected 10 employees and judgmentally selected 10 based upon how the hours were charged (i.e., for days in a row or spread across time).
- We reviewed service increment retroactive payments for an additional 10 affected employees (the first employee tested was part of our original sample of 45). We selected five employees randomly and five judgmentally, based on large retroactive payment amounts ranging from \$1,226 to \$2,382.
- We interviewed District officials to gain an understanding of the District's procurement and claims audit processes.
- We reviewed the District's purchasing policy and supplemental purchasing manuals for compliance with GML and adequacy.
- We reviewed 15 randomly selected and 500 judgmentally selected p-card transactions to determine if competition was properly sought, the purchases were appropriate, cardholders split transactions, the required documentation was maintained, procurement procedures were followed and the best pricing was obtained. Included in the 500 judgmentally selected transactions were 31 selected using auditor professional judgment (purchases from particular vendors and dollar amounts) looking for inappropriate purchases, 22 containing District negotiated and State contract vendors, 13 that appeared to exceed quote limits and 434 that appeared to exceed bid limits in aggregate.
- While we tested p-card purchases from various District departments and schools, we focused largely on p-card purchases by facilities staff (406 purchases out of 515 totaling \$282,319 out of \$396,129). Facilities made the most p-card purchases in both quantity and cost, totaling approximately 7,700 transactions at more than \$2.7 million during our audit period.
- We judgmentally selected 30 purchases made through the District's PO process, including 10 based on dollar values that were at or above competitive bidding thresholds, 10 that were at or above quote thresholds (we reclassified one of our original quote items because it exceeded bid thresholds) but below competitive bidding thresholds and 10 that appeared to be professional services in excess of the District's \$35,000 policy threshold.

- We reviewed documentation to determine if the District sought proper competition in procuring goods and services. For those goods or services where the District did not seek competition, we inquired with District officials for an explanation.

We conducted this performance audit in accordance with GAGAS. 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 objectives.

APPENDIX D

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