Audit knocks RCSD's methods

Audit

State finds errors in nearly every payment it reviewed

JUSTIN MURPHY

@CITIZENMURPHY

The Rochester City School District's procedures for disbursing its budget of almost a billion dollars is a shambles, the New York state Comptroller's office said in an audit released Monday, with a lack of proper controls along with widespread skirting of the rules that do exist.

The audit found no evidence of intentional fraud, but plenty of opportunity for it. There were problems with nearly every employee payroll and credit card purchase reviewed, as well as hundreds of thousands of dollars of big-ticket purchases and contracts that hadn't been properly bid.

In some cases, such as payroll payment processing, there are no written policies in place. Elsewhere, as in the use of district credit cards, there are

See AUDIT, Page 8A

Audit knocks RCSD's methods

1 of 3 4/11/2017 5:53 AM

Audit

Continued from Page 1A

procedures, but most employees don't know about them or flout them altogether.

Monitoring that should be done by trained auditors is instead outsourced to secretaries or low-level clerical workers, and even the district's claims auditor conducted only "a cursory ... review (that) does not even approach a proper audit of claims."

In its written response, the district acknowledged most of the auditors' findings as accurate but disagreed with the overall characterization. "We are concerned ... that general readers of this report may misunderstand some of the findings," School Board President Van White and Superintendent Barbara Deane-Williams wrote. "Our position is that our recurring biweekly payroll ... is materially correct."

As the auditors acknowledged, a certain level of error is inevitable in a district the size of Rochester. Its proposed \$920 million 2017-18 budget, for instance, would spend more on teacher salaries (\$228 million) than any suburban district spends in total.

Even so, the auditors found a near-universal lack of compliance with purchasing and payroll policies, in matters large and small.

- » The district awarded a bid for rubber gloves for a price of \$3.88 a pair, but instead bought them for \$14.38 a pair from another provider with which it had a separate contract.
- » State auditors found 81 instances where employees split a purchase into two transactions to circumvent daily spending limits. These and other inappropriate purchases passed unnoticed through several levels of oversight, up to the school board itself.
- » In one case, the district followed proper procurement procedures to buy a truck for \$28,600, but then bought a refrigerated van for \$33,500 without bidding, classifying it instead (improperly) as an "add-on."
- » Incentive payments to highly effective teachers were miscalculated across the board, resulting in \$239,389 in unapproved payments within one sample group. In one non-random sample, the auditors found errors or lack of substantiation in the payments to 41 of 45 employees. Twenty-three of them received incorrect payments, and documentation was lacking in 39 instances.
- "In our limited audit testing, we identified numerous errors in virtually all aspects of employees' pay, including regular salaries and various extra payments," the auditors wrote. "The high error rate is evidence that the process is not working to ensure payroll payments are accurate." Separately, the auditors found fault with 500 out of 515 transactions made with "p-cards," or credit cards provided to certain staff members.

The district did not seek proper competitive bidding for four of 11 purchase orders or six out of 10 professional service contracts, totaling a combined \$622,000. The unifying problem seemed to be one of decentralization. More than 340 employees had access to a p-card — which, when used properly, save the district on processing fees for low-dollar, highvolume purchases — and some employees told auditors they routinely

2 of 3 4/11/2017 5:53 AM

share the card number with colleagues who need to make a purchase. In the facilities department, where most of the errors occurred, the auditors wrote: "Some (employees) told us they had no knowledge of what a bid was."

The audit was conducted between July 2014 and October 2016, mostly before current Superintendent Barbara Deane-Williams took office. She has emphasized systems coherence as a major place for reform in the district and pushed to move resources and people from central office into school buildings.

The auditors' findings show where that approach can fail; when systems like accounting and purchasing are flattened, there are fewer levels of review that can, in theory, catch errors.

The district intends neither to pull payroll functions back to central office nor to allocate more money for oversight, Chief Financial Officer Everton Sewell said. Instead, existing district accountants — including Sewell himself — will be asked to review financial reports regularly.

The auditors included a number of recommendations, most of them selfevident. They also suggested investigating to see whether the district can recover some of the funds it disbursed improperly, particularly in overpayments, and Sewell said that is happening now.

In its written response to the audit, the district noted that the auditors had focused mainly on "non-standard payments," where errors were more likely. Even in an initial random sampling, though, the auditors found mistakes in at least 11 of 15 employees' pay.

Jose Cruz, chairman of the board finance committee, said there will be legislation forthcoming to fix some of the problems the auditors identified, but otherwise would not comment on the audit.

"I think the process has taken care of itself," he said. "We're doing what we need to do."

JMURPHY7@Gannett

.com

"We are concerned ... that general readers of this report may misunderstand some of the findings. Our position is that our recurring biweekly payroll ... is materially correct."

WRITTEN RESPONSE

FROM ROCHESTER SCHOOL BOARD PRESIDENT VAN WHITE AND SUPERINTENDENT BARBARA DEANE-WILLIAMS

Tuesday, 04/11/2017 Pag.A01

Copyright © 2017 Democrat and Chronicle 4/11/2017