



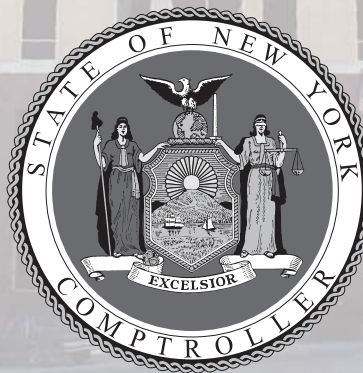
# Rochester City School District Audit of Selected Financial Transactions

Report of Examination

Period Covered:

July 1, 2007 — October 31, 2008

2009M-114



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

January 2010

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 Audit of Selected Financial Transactions. This audit was conducted pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article 3 of the 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

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### EXECUTIVE SUMMARY

The Rochester City School District (District) is governed by the Board of Education (Board) which comprises 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<sup>1</sup> is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The Superintendent's Employee Group (SEG) is an at-will employment group consisting of top management who primarily report directly to the Superintendent. The salary and benefits of SEG members are governed by the Rules and Regulations of the Board of Education relating to Superintendent's Employee Group (SEG Rules and Regulations) as approved by the Board. The claims auditor assumes the Board's powers and duties with respect to auditing and authorizing claims for payment.

Throughout the year, the District enters into hundreds of contracts for the procurement of professional services. At any given time, the District has several capital projects in process for updating and renovating District buildings.

#### **Scope and Objective**

The objective of our audit was to determine if internal controls over selected financial transactions were appropriately designed and operating effectively for the period July 1, 2007 to October 31, 2008. In examining District controls, we also report on certain transactions and activities that occurred prior to July 1, 2007 and subsequent to October 31, 2008. Our audit addressed the following related questions:

- Did the Board provide adequate oversight to ensure that District personnel received appropriate salary and benefits?
- Are internal controls over the claims audit process appropriately designed and operating effectively?
- Are internal controls over the District's management of contracts appropriately designed and operating effectively?

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<sup>1</sup> There were four different Superintendents in place during our examination period: the first from July 1, 2002 to July 31, 2002, the second from August 1, 2002 to April 19, 2007, the third from April 20, 2007 to January 1, 2008, and the current Superintendent, who started January 2, 2008.

## **Audit Results**

The Board did not protect the District's financial interests from waste and abuse. The Board's failure to develop sound policies to manage District resources, its unwillingness to monitor District finances, and its deference to the individuals holding the Superintendent's position resulted in a poor control environment. When the tone at the top is poor, the internal control structure, which exists to protect District resources from misuse, can be weak or easily circumvented. Ultimately, taxpayers pay the cost.

The former Superintendent provided employees with \$164,550 in undocumented bonuses and salary increases. The former Superintendent did not follow the procedures set forth in the SEG rules and regulations for these payments.

The claims auditor failed to audit any of the claims for \$36 million in capital project payments. In addition, the former Interim Director of Finance and the Accounts Payable Supervisor had the ability to override the three way match required by the financial software, and the claims auditor does not review the system's audit log to investigate differences in supporting documentation before approving claims for payment. Without a thorough and complete audit of claims, payments could be made for claims that are not legitimate District expenses.

The District did not adopt comprehensive purchasing procedures. We found exceptions with all 61 contracts with professional service providers totaling \$2,673,082 that we examined, including that the District entered into 58 of these contracts totaling \$2,584,082 without issuing requests for proposals. Contracts in excess of \$25,000 were executed before Board approval. Contracts for professional services often lacked well-defined deliverables and payment terms. Other contracts had little to no oversight. Due to the Board's lack of guidance, change orders on capital projects increased base contract amounts anywhere from 11 percent to 189 percent. Because of these weaknesses in procurement and contract management, the District could pay more than necessary for services or not receive all services expected.

## **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 stated in Appendix A, District officials generally agreed with our findings and recommendations, and indicated they will take, or have taken, corrective action. Appendix B contains OSC's comments on issues raised in the District's response.

# 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 comprises 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 is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are 60 schools in operation within the District, with approximately 34,000 students and 5,350 employees. The District's budgeted expenditures for the 2008-09 fiscal year were \$682,753,545, which were funded primarily with State aid, aid from the City of Rochester, and grants.

The Superintendent's Employee Group (SEG) consists primarily of appointed executive level staff who report directly to the Superintendent and assist him with the day-to-day management of the District. SEG employees are at-will employees and generally serve at the Superintendent's discretion; they do not have the same protection as civil service employees. In general, SEG employees receive higher compensation and enhanced benefits that are not available to civil service employees. The salary and benefits of SEG members are governed by the Rules and Regulations of the Board of Education relating to the Superintendent's Employee Group (SEG Rules and Regulations), as approved by the Board.

The Board appointed a claims auditor to audit and approve all claims against the District.

The District enters into various contracts throughout the year for the procurement of professional services. The District typically has several on-going capital projects in an effort to maintain and update its facilities.

## Objective

The objective of our audit was to determine if internal controls over selected financial transactions were appropriately designed and operating effectively. Our audit addressed the following related questions:

- Did the Board provide adequate oversight to ensure that District personnel received appropriate salary and benefits?

- Are internal controls over the claims audit process appropriately designed and operating effectively?
- Are internal controls over the District's management of contracts appropriately designed and operating effectively?

**Scope and Methodology**

During our audit, we interviewed appropriate District officials, examined financial records and reviewed policies and procedures of the Rochester City School District for the period July 1, 2007 to October 31, 2008. We extended the scope of our audit for the review of the control environment for the 2001-02 through 2007-08 fiscal years, for compensation paid to the Superintendent's Employee Group for the 2002-03 through 2007-08 fiscal years, for claims processing for the 2004-05 through 2007-08 fiscal years, and for contracts for the 2002-03 through 2007-08 fiscal years.

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.

**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 stated in Appendix A, District officials generally agreed with our findings and recommendations, and indicated they will take, or have taken, corrective action. Appendix B contains OSC's comments on issues raised in the District's response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the 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.

## Control Environment

A vital component of any internal control system is the control environment, or “the tone at the top.” The control environment is a reflection of management’s attitude about internal controls and includes the integrity, ethical values, and competence of the organization’s people, and management’s philosophy and operating style. When the control environment is strong, there is an expectation that everyone, including top management, will conform to established controls and uphold the public’s trust. The foundation of any effective control environment is competent managers who have integrity and attentively monitor operations to safeguard public resources.

The District’s weak control environment allowed the welfare of a select group of upper management to take precedence over the taxpayers’ best interest. While the interim Superintendent took some actions to improve the control environment, such as attempting to be more transparent and terminating individualized contracts of employment, as discussed later in this report, these actions do not appear to have accomplished permanent institutional change. This leaves open the potential for further abuses.

The Board often believed and relied on the actions of District administrators and/or did not provide adequate oversight of District operations. The Board did not ensure that employees adhered to the Board’s established policies. The Board’s failure to set a positive tone at the top and to implement an effective control environment has resulted in approximately \$1.3 million in questionable payments, some of which benefited the very group of top managers that was responsible for safeguarding the public’s resources. The following are examples of the Board’s failure to set the proper tone in its own actions, and its lack of oversight and involvement that permitted management to override existing Board policies and District procedures:

- The District entered into several contracts totaling more than \$940,000 with one vendor who had an undisclosed personal relationship with the former Chief Executive Officer of Business Services.<sup>2</sup> Between April 2003 and October 2004, the Chief Executive Officer of Business Services approved \$747,000 in payments to this vendor.

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<sup>2</sup> Prior to becoming the CEO for Business Services, this employee was the Director of Financial Planning and then later the Chief Financial Officer. Hereinafter, the employee will be referred to as the CEO of Business Services.

- The District paid a consultant \$390,000 for questionable work completed related to the District's Facilities Modernization Project.
- The former Superintendent provided employees with \$164,550 in undocumented bonuses and salary increases.
- The former Superintendent and former CEO of Business Services charged and received reimbursement for more than \$13,000 and \$1,400, respectively, in excessive travel expenses. The former Superintendent paid back the excessive amount. However, despite the District's attempts to seek reimbursement, the former CEO of Business Services has not reimbursed the District to date.
- Supplemental agreements to collective bargaining agreements, known as Memorandums of Agreement (MOA), lacked a formalized approval process. We reviewed 20 MOAs and found that only one contained Board approval. Due to the complexity of the benefits granted in these agreements, we were not able to calculate the dollar value.

District officials report that, over the last three years, they have made significant changes to strengthen internal controls and improve accountability for District operations. Specifically, District officials state that the Board created an Office of Auditor General to evaluate control effectiveness and an Office of Claims Auditor to ensure appropriate support for claims, and that the District established an internal control function to maintain internal control systems. District officials also report that they have automated the purchasing system and updated the District's Business Manual to include detailed purchasing procedures.

## **Recommendation**

1. The Board should continue to take a more active role in District financial operations.

## Compensation Related to the Superintendent's Employee Group

The primary objective for internal controls over compensation is to ensure that employees are paid salaries and provided benefits to which they are entitled. To ensure that employees are paid the compensation and benefits they are entitled to, such payments must be clearly defined and properly authorized.

The Superintendent's Employee Group (SEG) is an at-will employment group consisting of employees who are appointed to their positions and primarily serve at the Superintendent's<sup>3</sup> discretion in accordance with the SEG Rules and Regulations of the Board of Education. According to SEG Rules and Regulations, these positions are not part of any collective bargaining unit, are deemed managerial or confidential, and are not subject to either the provisions of Civil Service Law applicable to competitive or labor class employees or Education Law regarding tenure. Compensation and benefits granted to SEG members – consisting of the Superintendent's "cabinet," the Superintendent's confidential support staff, and certain other high-level administrators – are governed by SEG Rules and Regulations. The current set of SEG Rules and Regulations was approved by the Board on July 17, 2003, and is the third generation of regulations governing this group of employees.<sup>4</sup> SEG Rules and Regulations grant the Superintendent "the power to appoint, compensate, employ and discontinue the service of persons subject to these Rules and Regulations..."

The former Superintendent provided employees with \$164,550 in undocumented bonuses and salary increases. The former Superintendent did not follow the procedures set forth in the SEG Rules and Regulations for these payments.

### Individualized Contracts of Employment

SEG Rules and Regulations authorized the Superintendent to provide employees with an individualized contract of employment (ICE), giving him the authority to provide employees with any benefits he deemed appropriate. Given the Board's delegation of this authority to the Superintendent, it is important for the Board to maintain active oversight of executive compensation. The Board failed to provide the adequate oversight needed to ensure the compensation was prudent.

<sup>3</sup> There were four different Superintendents in place during our examination period: the first from July 1, 2002 to July 31, 2002, the second from August 1, 2002 to April 19, 2007, the third from April 20, 2007 to January 1, 2008, and the current Superintendent, who started January 2, 2008.

<sup>4</sup> The first known set of regulations went into effect on September 1, 1994.

Former District officials told us that allowing the Superintendent to enter into ICEs would give him the flexibility to recruit national experts in education and like fields while also rewarding (and hopefully retaining) high-performing SEG members. However, we reviewed nine employment contracts and found that only one was used to recruit a candidate into District employment. The remaining eight contracts were granted to current employees. For those current employees, the District did not complete performance evaluations or have other formal support to justify the ICEs provided. Board members were not aware that these contracts were not used, in most cases, to recruit experts in educational fields. The full Board became aware of these eight ICEs in the summer of 2007, when the Interim Superintendent discovered them, brought them to the Board, and subsequently terminated the eight ICEs, with the exception of those contracts that provided for tuition reimbursement for degrees in which the individual was already enrolled. Although brought to the Board's attention in this instance and terminated, the Board took no action to improve oversight of future contracts.

### **Undocumented Bonuses and Raises**

We found that the former Superintendent did not create a formal annual performance system, as required by SEG Rules and Regulations. The former Superintendent provided SEG members with 137 bonuses totaling over \$550,000 from July 2002 to December 2006. We reviewed 30 of these bonuses totaling \$143,250 and found that 27 bonuses (90 percent) totaling \$138,250 did not have support for why they were awarded. For these 27 bonuses, District officials provided us with confidential memos from Human Resources to the employees stating that the former Superintendent approved bonuses for the employees (in various dollar denominations up to \$10,000) in recognition of their work and contributions during the school year. The confidential memos, however, provided no details, and the District did not prepare performance appraisals to support those bonuses. The former Superintendent provided us with his documentation for the bonuses. The documentation was incomplete because it was vague, not signed by either party, and did not provide documentation for all of the bonuses questioned. Additionally, the authenticity of the information could not be verified, as it was maintained by the Superintendent personally.

Furthermore, SEG Rules and Regulations provide that each employee's salary is automatically increased on July 1 by no less than the average increase in the Consumer Price Index-Urban (CPI-Urban). In addition, the Rules and Regulations authorize the Superintendent to increase an employee's salary by up to five percentage points greater than CPI-Urban, based upon the Superintendent's formal appraisal of the employee's performance during the previous 12 months, unless special circumstances warrant

a greater increase as explained by the Superintendent to the Board. The CPI-Urban increase for all SEG employees for fiscal year 2003-04 was 2.66 percent. The former Superintendent granted the following undocumented raises totaling over \$26,300:

- For the 2003-04 fiscal year, the former CEO of Business Services received two raises totaling \$23,207, or an increase of almost 18 percent, a total payment of \$19,847 over the CPI-Urban increase. At the time of the first raise, the former employee's title changed from the Chief Financial Officer to CEO of Business Services. While a change in titles did occur, and the former Superintendent indicated that there were increased responsibilities, the District could not provide formal or informal supporting documentation to show that there was a corresponding change in job responsibilities. In addition, the ICE that was granted to this individual indicated that there was an attachment detailing specific job responsibilities that went along with the new title. However, this attachment was not on file with the ICE, and no one at the District was able to provide us with a copy of that attachment. The two raises, in total, exceeded 5 percent above the CPI-Urban increase for the year and thus required a formal performance appraisal and notice to the Board. While we noted that the Board approved the change in title for this official, there was nothing indicating approval of the corresponding raise.
- For the 2003-04 fiscal year, the former Chief Legal Counsel received two raises totaling \$9,700, or an increase of 8 percent, a total payment of \$6,493 over the CPI-Urban increase. The two raises, in total, were 5 percent above the CPI-Urban increase for the year and thus required a formal performance appraisal. The former Superintendent did not meet this criteria when he authorized these raises.

The former Superintendent did not follow the procedures set forth in the SEG Rules and Regulations for these raises. These raises exceeded the maximum percentage increase allowed by SEG Rules and Regulations, did not comply with the requirement that a formal performance appraisal be prepared, and were done without Board notice.

## **Recommendation**

2. The Board should develop procedures to ensure that senior management's compensation and benefits are provided in accordance with Board policies.

# Claims Audit

Education Law requires the Board, or a Board-appointed claims auditor, to audit all claims before they are paid to ensure that claims against the District are actual and necessary expenses. The claims auditor assumes the Board's powers and duties with respect to auditing and authorizing claims for payment. The District must ensure that all transactions are processed and approved through claims audit before making payments to have assurance that all payments are valid and necessary District expenditures. The Board officially appointed a claims auditor in January 2007.<sup>5</sup>

The District paid 139 claims totaling \$9 million without the claims auditor's review and approval. In addition, in order for claims against the District to be paid, the District's financial software package requires a three way match, which means that the purchase order, vendor invoice and receiving document must all match in the financial software system, or the system will reject the claim. The Interim Director of Finance and the Accounts Payable Supervisor had the ability to override the three way match required by the financial software, and the claims auditor does not review the system's audit log to investigate differences in supporting documentation before approving claims for payment. Approving claims against the District without requiring supporting documentation and appropriate staff authorization increases the risk of paying claims that may not be proper and valid District expenses.

## Claims Processing

The purpose of a claims audit is to ensure that all claims are supported by proper original documentation, are proper District expenditures, and are in conformance with District policies. Effective internal controls over claims processing help ensure those goals are met and that the amounts claimed represent actual and necessary District expenses. This process helps the District ensure that it expends taxpayer dollars in the most efficient manner. The failure to properly audit District claims could result in payments for unauthorized, unnecessary or inappropriate purchases.

The District's claims auditing process was not providing sufficient assurance that District funds were safeguarded and used only for legitimate purposes. From July 2006 to January 2009, the District processed over 144,000 claims totaling over \$1.45 billion. We tested 139 paid transactions totaling \$9 million for capital projects

<sup>5</sup> Prior to January 2007, the District's accounting and audit function was reviewing some claims but was not testing all claims processed by the District, as required by law.

payments and found that the claims auditor did not review or approve any of the transactions. District officials stated that payment applications for the capital projects are processed through the City of Rochester (City), and that they believe it is appropriate for the City to complete an audit of claims of the capital project payment applications because they are expensed as City funds out of a City account. However, City officials told us that the City acts as an administrator for these payment applications and they do not audit the claims prior to paying, as they feel that it is the District's responsibility to do so. We believe the District is in the best position to verify the payment applications' associated expenses and therefore should be responsible for processing the payments through the claims audit process. From July 1, 2005 through June 30, 2008, the District has processed, without the benefit of a claims audit review, over \$35.9 million in capital project payments.

### **Access Rights**

To adequately safeguard District assets, it is important to grant users only the access rights to the financial accounting system necessary to perform their job duties. We found that the former Interim Director of Accounting and the Accounts Payable Supervisor had the ability to enter invoices in the system as well as add new vendors. Both employees had access rights which would allow them to almost entirely control a transaction through the complete disbursement process with few exceptions. With these abilities, these individuals would be able to initiate and conceal improper transactions. The District must therefore ensure that all transactions are processed and approved through claims audit before making payments.

In order for a claim against the District to be paid, the financial system requires a three way match, which means that the information on the purchase order, vendor invoice and receiving document must all match in quantity and amount. If all three documents do not match, the software automatically rejects the claim, and the claim may not be paid. The former Interim Director of Accounting and the Accounts Payable Supervisor both had the ability to override the financial software system's requirement for three-way matching. The financial software produces an audit log any time an override is done in the system; however, the claims auditor was not reviewing this log prior to approving claims. We reviewed the audit log for the former Interim Director of Accounting and the Accounts Payable Supervisor and found instances where they had used the override function. No information as to why they overrode the controls was available for review. The documentation for a voucher should be consistent; therefore, it should be an unusual situation when this control has to be overridden. The claims auditor should verify the reason for differences in support for the voucher before approving it for payment.

## Recommendations

3. District officials should not pay claims without prior audit and approval by the claims auditor.
4. The claims auditor should ensure that claims include original documentation, detailed invoices, staff approvals, and purchase orders, and that purchases comply with appropriate policies and procedures prior to approval for payment.
5. The District should review the three way match override audit log and ensure that only valid claims against the District are being paid. Only the claims auditor should have the ability to override this internal control.

## Contracts

General Municipal Law requires the District to adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required. An effective and comprehensive procurement policy should describe procurement methods, explain when to use each method, and require adequate documentation of procurement decisions. In addition, an effective policy provides assurance that the District acquires professional services at competitive rates. It is essential that the District have a written agreement with professional service providers with a clearly-defined and mutually agreed-upon basis for determining entitlement to payments. It is important for written agreements to include the timeframe and description of services to be provided, and written agreements may be used to verify that the fees charged are in accordance with the Board's intent.

The District did not adopt comprehensive purchasing procedures. We found exceptions with all 61 contracts with professional service providers totaling \$2,673,082 that we examined, including that the District entered into 58 of these contracts totaling \$2,584,082 without issuing requests for proposals. As a result, the risk is increased that the District could be obtaining services at higher than necessary costs. In addition, the District's contracts did not clearly define and measure deliverables, and lacked adequate authorizations. The District did not have a comprehensive contract oversight policy, and District employees had no formal guidance on how to oversee and monitor contracts. Due to the Board's lack of guidance, change orders on capital projects increased base contract amounts anywhere from 11 percent to 189 percent. The Board and administration's lax contract oversight has caused the District to enter contracts that lack the necessary details on deliverables to allow District staff to effectively manage contracts.

### Professional Services

Although competitive bidding is not required for procuring professional services that involve specialized skill, training, expertise, and the use of professional judgment or discretion, a good system of internal controls dictates that the District use a competitive process to obtain these services. Using a request for proposals (RFP) is an effective way to ensure that the District receives the desired services for the best price.

The Board adopted a purchasing policy; however, the District's purchasing procedures are not comprehensive and do not require obtaining RFPs or other competition when procuring professional

services. Rather, vendor selection for professional services is left to the discretion of the staff with approval from the Superintendent or his/her designee. Board approval is required if the contract is above \$25,000. The District's purchasing policy requires that no consultant shall commence work and no payment will be approved prior to having a fully executed agreement for professional services. However, the policy does not require that contracts contain clearly-defined deliverables. As a result, the District is at risk of entering into contracts without clear expectations, which makes it difficult to effectively monitor the contractors' performance.

Between January 2005 and September 2008, the District processed approximately 960 contracts for professional services totaling approximately \$65.5 million. We tested 61 professional service contracts and addendums that were dated between September 2002 and August 2008 totaling \$2,673,082 to determine if the District had solicited competitive proposals or other forms of competition for the services, if the District had entered into written agreements with each vendor, and if the District properly executed the contracts. We found that every contract or addendum had at least one exception (some contracts contained more than one exception):

- The District did not obtain competition for 58 contracts totaling \$2,584,082, and received proposals for only three contracts.<sup>6</sup>
- Thirty-three contracts and addendums did not contain clearly-defined and measurable deliverables. Without more detailed deliverables described in the contract, it is difficult for the District to effectively manage the contract and ensure that the contracted services are received. For example, a consultant was to provide additional services for \$32,000, with no indication of what additional services were included. In another instance, the District contracted for \$24,850 for services as per the consultant application. However, the application was not attached, nor was it on file.
- Twenty-nine contracts were at or above the \$25,000 threshold requiring Board authorization. Of the 29 contracts that required Board authorization, nine were authorized by the Board after the contract start date. On average, the nine contracts were approved by the Board 37 days after their stated start date.
- The District executed 16 of the contracts after their stated start date. The contracts were executed an average of 75 days

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<sup>6</sup> We can only verify that one of the three proposals was actually obtained as a result of an RFP.

after the start date. For example, we found that the District entered into an agreement with a vendor on March 24, 2008 for services to be provided beginning on January 2, 2008, 82 days after the contract start date. When services such as these are provided before the agreement is in place, there can be misunderstandings about services to be provided or rates to be paid.

By not establishing policies and procedures that require obtaining multiple proposals or quotations when competitive bidding is not required, and by awarding professional service contracts without RFPs or quotations, District officials cannot assure taxpayers that they are procuring the most economically beneficial and qualified service providers. By not having clearly-defined contract deliverables in place, District officials cannot be certain that the District is paying for the agreed-upon services and that the services are delivered in accordance with District requirements. This can also make it difficult to resolve any disputes that may arise between the District and the vendor. Without adequate controls in place to ensure Board approval of contracts prior to the contract start date, there is no assurance that District policy is being adhered to.

## **Contract Oversight**

Effective contract oversight should ensure that the contractors are providing the District with the goods and services agreed upon in the terms of the contract. Good contract oversight will hold contractors accountable, whereas poor contract oversight can expose the District to fraud, waste and abuse of taxpayer dollars. On-going contract monitoring is essential for successfully managing a contract and ensuring that services paid for are received. Proper monitoring also ensures that the contractor is providing the District with deliverables or some documentation that services were actually provided, and detailed invoices for payment of services rendered.

The District does not provide its staff with adequate contract management guidance to ensure that the District is receiving the agreed-upon services. Consequently, District staff are not effectively monitoring contracts, ensuring that the contractors are providing required services, submitting invoices in a timely manner and as prescribed in the terms of the contract, and providing enough detail as to hours worked and deliverables received by the District during the billing period. As discussed above, the District entered into 33 contracts that did not contain clearly-defined and measurable deliverables. Below are two examples of the District's lack of contract oversight and monitoring.

Financial Software and Human Resource Systems Upgrade – Between September 2002 and August 2004, the District, with

approval from its legal department, entered into six contracts and contract extensions with a consultant totaling over \$940,000 to provide assistance to District staff with upgrading the District's financial software and human resource systems. However, the Board only authorized \$901,140 of this amount, a \$39,000 discrepancy. This discrepancy occurred because the Board did not authorize each contract extension individually, and instead authorized one contract extension that was meant to incorporate all previous extensions that had been executed without Board approval. In addition, three of the contracts and contract extensions overlap with starting and ending dates, and the Board authorized the first contract over a month after it was executed.

Between April 2003 and October 2004, the District made 40 payments totaling over \$747,000 to the consultant based on the terms of the agreements. The former CEO of Business Services executed and signed the six contracts and contract extensions and also approved payment on all 39 of the invoices. Given the nature of services provided by the consultant, it would be more appropriate for a member of the District's Management and Information Services (MIS) who was directly responsible for initiating the system upgrade to oversee the consultant and ensure that she was providing effective and appropriate assistance to District staff. Furthermore, based on emails between the former CEO of Business Services and the owner of the consulting company, it is apparent that these individuals developed a personal relationship which posed a conflict of interest, and, given the substantial amount of money the District paid to this consultant, should not have taken place. Once the personal relationship started, the former CEO of Business Services should have refrained from approving any part of the work done or payments to be made.

In addition, the contracts and deliverables were vague and did not provide an adequate description of the services to be provided to the District, making it difficult for District staff to fully oversee the consultant for compliance and delivery of services. For example, the second contract was for the consultant to provide "oversight for the budgeting and position management projects undertaken by the District's Financial Services Department." The scope of work was vague and not useful for staff in terms of measuring the contractor's performance.

In March 2003, a Board Member first raised concerns, via a memorandum sent to the former Superintendent, regarding the contractor's business and the District's assessment of work completed, as well as the project timeline. About a year later in March 2004, via a memorandum from the Finance Committee Chair to the former Superintendent, the Board again raised several concerns regarding the

District's contracts with the consultant. Specifically, the Committee raised concerns regarding the contracts' overall cost, asked for a clearer, more defined scope of services, and questioned why the services could not be provided in-house by the District's Chief Information Officer.

Ultimately, the Finance Committee remained uncomfortable with the proposed contract and authorized an extension of the contract for 90 days to allow the District enough time to conduct an RFP for continued services. The Board approved the three month extension at a cost of \$180,040 and issued an RFP for the remaining services. The District received only one response to the RFP, which was from the same consultant the District had been dealing with. The consultant's proposal, priced at \$736,000, was almost \$240,000 more than originally requested, was for an extended period of time, and had increased rates for three of the four staff members. The District did not issue an additional contract with the consultant. However, the District's lack of guidance regarding contract oversight and management created a situation in which a high-level District employee, who had a personal relationship with the vendor, was able to enter into and approve services with very little oversight.

Facilities Modernization Plan – The District entered into two agreements between April 2006 through December 2007 totaling \$410,000 with a consultant for services related to the District's Facilities Modernization Project. The consultant was to provide a compliance plan to the District by October 1, 2006. District staff told us that by the end of Spring 2007, despite having already paid the consultant \$200,000 and entering into a second contract for an additional \$210,000, the District had not received the compliance plan.

The District paid the consultant for 188.75 staff hours, estimated at \$13,000, to attend conferences such as the Black and Puerto Rican Caucus and the 22nd annual Minority, Women, and Small Business Enterprise Conference, all without prior District approval. The District also paid the contractor for 169 staff hours, estimated at over \$11,000, to conduct services classified by the consultant as “faith based meetings and outreach,” “faith community meeting preparation,” and “faith community profile.”

District staff repeatedly raised concerns and questions, both verbally and through email, to the vendor regarding the accuracy of the data and work product the consultant provided. District staff were also concerned about the consultant's attendance at conferences, especially since the District did not approve the attendance. According to District staff, on at least three separate occasions, the District

requested that the consultant provide a project timeline and monthly activity report at the beginning of the month detailing the work to be completed during the period and a month-end report on progress made during the period. District staff told us that the consultant was unresponsive to these requests. Furthermore, District staff said that they were unaware of the consultant's activities, making it challenging to manage the work completed and ensure that the District received the deliverables outlined in the contract. District staff told us that they did not believe that an acceptable plan was produced by the consultant.

Despite the consultant's lack of responsiveness and questionable charges for attendance at conferences, the District still paid 13 invoices totaling \$390,000 as submitted by the consultant. We question the prudence of paying the contractor for these questionable charges that the District did not authorize. This is a direct result of the District's failure to implement an effective contract management policy that could have directed employees how to respond to situations such as these. Absent adequate policies and procedures, it is difficult for staff to effectively monitor contracts, and, once an issue has been identified, it is difficult for staff to enforce contract terms. The Board and administration's lax contract oversight has caused the District to enter into contracts that lack the necessary details on deliverables to allow District staff to effectively manage contracts.

## **Change Orders**

After a construction contract is executed, a change order form must be completed to define the addition or deletion in the scope of work and any change in contract price or completion timetable. With any construction undertaking, a certain number of change orders are to be expected because all the variables are not known going into the project, and it is sometimes necessary to make some changes from the initial plan as the work progresses. However, if the change is not related to the scope of the original contract, it must be performed through a new contract that is competitively awarded. Change orders should be kept to a minimum because the prices for change order work are usually determined through negotiated agreements with contractors rather than competitive bidding. To ensure that change orders are valid and necessary, the District should require written Board authorization for change orders.

Although the Facilities Department has developed an informal system of processing and approving change orders, District management has not established written policies and procedures for the processing of capital project change orders, and the Board does not review and approve change orders prior to payment. We tested four capital projects totaling over \$9 million that contained a total of 26 individual contracts. Of the 26 contracts we tested, 22 contained 59 change

orders. Ten of these contracts exceeded the original contract base amounts from 11 percent to 189 percent, for a total additional cost to the District of \$366,772. Our testing disclosed weaknesses that could allow deficiencies to occur. For example:

- In 2006, the Board authorized a contract for renovations at a District High School totaling \$464,000. The contract was properly awarded after public advertisement for competitive bids. Between July and December 2006, District staff approved eight change orders totaling \$267,176, increasing the contract's total to \$731,176. In three invoices, the District was billed for replacing fencing with decorative fencing at a cost of over \$97,500. The District was also invoiced \$3,500 for overtime pay, \$20,000 to move furniture, and two change orders totaling \$52,000 to construct a masonry press box for baseball fields. These change orders substantially changed the contract and should have been separately bid because the amounts exceeded competitive bidding thresholds, and the changes could have been completed separately from the initial contract.
- During 2006, the Board approved a construction contract for plumbing work totaling \$60,000. This contract was properly awarded after public advertisement for competitive bids. Between late July 2006 and November 2006, Facilities Department staff, including the Director of Facilities and District Architect, approved three change orders totaling \$67,505, more than doubling the contract's value, bringing the final contract total to \$127,504. The three change orders were to compensate the contractor for additional services such as replacing a shut-off valve, installing a new hot water tank, and overtime. The additional work associated with these change orders began without Board approval, and therefore, the Board was not afforded the opportunity to question the \$67,000 of additional expenses. Since these change orders substantially changed the contract and could have been done separately from the original contract, they should have been bid as separate projects.

The Board's failure to provide specific guidance through well-developed policies, and District officials' failure to provide specific written procedures, have allowed the Facilities Department to process change orders without adequate oversight by District management and the Board. Such failure could lead to the occurrence of errors and irregularities that could go undetected.

## Recommendations

6. The District should amend its procurement policy and develop procedures to include provisions for the procurement of professional services.
7. The District should implement appropriate oversight and controls to ensure that contracts are approved and executed prior to their start date.
8. District officials should ensure that the District has written and signed agreements in place with professional service providers that clearly define the amount of compensation, the types of services, and the duration of the work to be performed.
9. District officials should provide staff with guidance and clear expectations for contract management and oversight, outlining key components such as continual monitoring and how to handle compliance issues.
10. The Board should actively oversee change orders associated with a capital project, and assess the impact of change orders on project cost and design.

## **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

December 22, 2009

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*Vice President*  
Van Henri White

*Members*  
Thomas Brennan  
Melisza Campos  
Cynthia Elliott  
Willa Powell  
Allen Williams

*Superintendent of Schools*  
Jean-Claude Brizard

[REDACTED]  
Office of the State Comptroller  
Division of Local Government and School Accountability  
14 West Main Street  
Rochester, NY 14614

Dear [REDACTED]

This letter serves as the Rochester City School District's response to the New York State Comptroller's Draft Audit Report for the July 1, 2007-October 31, 2008 period. We greatly appreciate the professionalism and advice of the local field staff and thank them for their dialogue throughout this process.

### *Executive Summary*

The Rochester City School District takes seriously its moral, ethical and legal obligations to the children of this community and recognizes that fiscal irresponsibility can profoundly impact their access to quality instruction. To that end, we are committed to ensuring that our control environment exemplifies the deep commitment we have to our children, is sustainable, and efficiently directs resources in the best interest of public education. Over the past two years, we have made significant progress toward this end, and believe many of the Comptroller's recommendations will assist us in structuring our approach to improving fiscal accountability and oversight. Under the leadership of the current Board and Administration, much of this work has already begun.

See  
Note 1  
Page 31

Notwithstanding the efficacy of the recommendations, many of the auditors' findings occurred several years ago. In fact, only five of the fifteen primary findings upon which the recommendations are based occurred within the period covered. The other two-thirds occurred between 2001 and 2006, well before the period covered, and the report is virtually devoid of any mention of the many controls that have been put into place over the past three years to improve fiscal accountability.

See  
Note 2  
Page 31

See  
Note 3  
Page 31

Significant changes have been made to ensure that history is not repeated:

- The Board created an Office of Auditor General charged with continually evaluating the effectiveness of the District's systems, procedures and practices;
- The Board created an Office of the Claims Auditor to ensure that expenditures are supported by appropriate documentation and approved prior to payment;
- The District created an internal control function to assist management in its responsibility for maintaining effective internal control systems and facilitate improvements to internal control processes;
- The District's system for purchasing goods and services is now automated, thereby imposing tighter controls, ensuring checks and balances, and requiring greater accountability; and
- The District maintains an updated Business Services manual, which provides in-depth procedures for, among other things, purchases of goods and services.

*Recommendation #1: The Board should take a more active role in District financial operations including but not limited to establishing a strong control environment. The Board should ensure that internal controls are not circumvented and that District activities are in compliance with Board-established policies. They should always ensure that actions taken and recommendations made by the Superintendent are appropriate and supported by adequate documentation.*

Each member of this Board takes his/her oath of office seriously and is deeply committed to carrying out its oversight responsibilities with fidelity. To that end, this Board is committed to establishing a strong control environment to ensure that taxpayer funds are prudently spent. We are well-positioned to continue to develop and implement policies and practices that prevent incidences such as those cited in the draft audit report, both of which occurred several years ago under entirely different leadership.

In addition to the work of the Board's Policy Committee, we have already initiated an evaluation of all existing policies and have engaged BOCES to provide professional and technical support in our efforts to make all necessary and prudent updates to our policy manual. We will also implement a more effective monitoring infrastructure to ensure adherence to both the language and intent of the policies. Because sound fiscal practices must occur throughout the District, the Board will continually reevaluate the overall control structure, and ensure that procedures and practices are aligned with policy.

This Board has also been committed to guarding against future irregularities by ensuring that the actions taken and recommendations made by the Superintendent are appropriate and policies are not circumvented. To that end, the Board spends significant time reviewing the Superintendent's proposed actions prior to each monthly business meeting. At the direction of this Board, three weeks before these meetings, the Board and Administration begin on-going dialogue designed to enhance their understanding of each proposed action that will come before the Board, and of how those actions relate to the District's vision, mission, values and strategic plan. Board members often ask additional questions, express concerns, and make requests for follow-up information at the monthly

Board meeting. There are also several committees, each made up of three core members, which meet monthly to evaluate, among other things, proposed expenditures. The Board also recently completed a formal performance appraisal of the current Superintendent. All of these processes are, and will continue to be, regularly updated to ensure continual improvements to the control structures as well as the Board’s understanding and analysis of the information presented.

*Recommendation #2: The District should develop procedures to ensure that senior management’s compensation and benefits are provided in accordance with Board policies.*

The District agrees that it must strictly adhere to the Board’s policy pertaining to senior management’s compensation (“SEG Rules”), and is committed to developing procedures that ensure the policy is implemented with fidelity, both on its face and in spirit. To that end, the procedures will include a system of checks and balances so that personnel actions taken by the Administration are done in strict accordance with the SEG Rules. The procedures will set forth clear standards for all written documentation and include record-keeping requirements. They will also detail the process for timely notice to and/or approval by the Board whenever required.

The current Administration, in place since January 2008, has ceased the practices cited as the foundation for this recommendation. No SEG employees have received bonuses or individualized contracts of employment. Additionally, the Superintendent has consistently completed formal performance appraisals of all cabinet members since joining the District in January 2008.

See  
Note 4  
Page 31

It must be noted that *none* of the five specific examples cited in the draft audit report in support of this recommendation occurred within the audit period covered. We also take strong exception to the finding that a current employee’s membership into SEG was “backdated,” and believe such subjective mischaracterization distorts the facts. This employee, like others, was hired prior to September 30, 2003 and was entitled to be treated as such. Section 8 of the SEG Rules read:

See  
Note 5  
Page 31

*Leave for Vacation. All employees hired on or before September 30, 2003 covered by these Rules and Regulations shall be credited...For employees hired on or before September 30, 2003, leave for vacation shall be approved in advance by an employee’s immediate supervisor.... (Emphasis added.)*

This was clearly explained in the employee’s offer letter, which stated, “[s]ince you have been an employee of the District since October 27, 1986; and since the transition to SEG means that you will forfeit certain rights and benefits which inure to tenured administrators and to those covered by the ASAR collective bargaining unit, you will be deemed to be eligible” for the pre-September 30, 2003 benefits. (Emphasis added.)

While we are aware that the auditors *disagree* with the District’s interpretation of the SEG Rules, “questions regarding the interpretation or application of [the SEG Rules] shall be forwarded to and addressed by the Chief Legal Officer.” (SEG Rules, Section 23.) It is wholly inaccurate to state that an employee’s membership into SEG was “backdated.” Backdating means predating a document before it was actually signed; clearly, this is not what occurred. If the SEG Rules are open to differing interpretations, it is not within the purview of the auditors to interpret them in order to make findings adverse to the District.

*Recommendation #3: District officials should not pay claims without prior audit and approval by the claims auditor.*

*Recommendation #4: The claims auditor should ensure that claims include original documentation, detailed invoices, staff approvals, and purchase orders and that purchases comply with appropriate policies and procedures prior to approval for payment.*

The District agrees that it should not pay claims before the claims auditor has checked to ensure that each of the required signatures is included on the invoice. The Office of the Claims Auditor currently ensures that all claims include purchase orders and original, necessary documentation prior to payment. Where documentation is deemed insufficient, additional inquiries are made until sufficient detail, explanation and documentation is gathered. Only then are claims released for payment. As in all manual processes, human error can (but rarely does) occur. We will continue to make every effort to improve our process, minimize human errors, and protect taxpayer funds.

With respect to capital project payment applications, as we indicated during the audit process, the District purposely decided that it was not necessary to audit these claims because all ordinance payments are made by the City of Rochester, which owns all real property (i.e., schools) used by the District. All supporting documentation, including relevant inspection approvals, has always been forwarded to the City for payment purposes. Because the underlying asset is owned by the City, we believe they have a vested interest in auditing the claims prior to payment.

Additionally, the District uses a multi-tiered attestation process consistent with the industry standard, American Institute of Architect’s (“AIA”) Application and Certificate for Payment forms and processes, which results in enhanced controls for the review of all capital project payments. Several experts must approve an invoice prior to payment including the architect or engineer of record, the project’s Inspector, a second licensed architect employed by the District, and the Director of Educational Facilities, who is also an architect. Nevertheless, after further discussions, we agree with the recommendation that ordinances be reviewed and approved by the District’s claims auditors.

*Recommendation #5: The District should review the three way match override audit log and ensure that only valid claims against the District are being paid. Only the claims auditor should have the ability to override this internal control.*

We agree that the District should review the three way match override audit log so that only valid claims are paid. Accordingly, the District will develop procedures that appropriately structure override controls and eliminate any possibility that any one individual has complete control over a transaction.

*Recommendation #6: The District should amend its procurement policy to include provisions for the procurement of professional services.*

As discussed above, the Board's policy manual is in the process of being updated, and amendments to the purchasing policy will include provisions for procuring professional services. While recognizing that professional services are specialized, the policy will require, among other things, that the services be procured in a manner so as to ensure the prudent and economical use of public monies.

*Recommendation #7: The District should implement appropriate oversight and controls to ensure that contracts are approved and executed prior to their start date.*

At present, the Board of Education exercises significant control over the approval of contracts that includes: (1) beginning three weeks prior to each monthly business meeting, the Board conducts an in-depth query into proposed contracts of \$25,000 or more; (2) every month, all proposed business services contracts (including facilities, construction, software, leases, etc.) are vetted through the Board's Finance Committee prior to being forwarded to the whole Board for review and approval; and (3) quarterly reports of all contracts under \$25,000 are provided to the Board for review. The Board's policies with regard to oversight and controls of contracts currently include: a Procedures and Reference Manual, a Purchasing Policy, a Vendor Relations Policy, a Responsible Bidder Policy, and a Financial Reports and Resolution Policy.

The Superintendent reviews and approves all contracts entered into by the District. Before contracts are signed by the Superintendent, the requesting department must prepare and submit to the Superintendent a Request to Issue for all contracts over \$600. The District has an electronic contract approval process to route contracts for departmental authorization. Contracts must be approved electronically by the chief or department head with responsibility for the proposed contract. Pursuant to Superintendent's Regulation 6745-R, the District established expectations with regard to the contract authorization process. Under Superintendent's Regulation 6700-R requirements were established with regard to specifications, rebidding, notification of bidders, assumption of risk, and the use of performance bonds.

Though not legally required, the District acknowledges that, except for special circumstances, best practices dictate that contracts should be fully executed before services begin. The District agrees that controls should be strengthened to increase assurances that contracts are fully executed prior to the commencement of services. The District has already begun to identify necessary amendments to existing procedures to improve practices in this area. For example, over the past year, the District's Law Department has delivered three professional development presentations in contract procedures to central office departments and schools, and intends to complete additional training to other departments.

*Recommendation #8: District officials should ensure that the District has written and signed agreements in place with professional service providers that clearly define the amount of compensation, the types of services, and the duration of the work to be performed.*

Since January 2008, most agreements with professional service providers have defined the amount of compensation, the types of services and the duration of the work to be performed. However, the District agrees that improved definition will contribute to our goal of continuing to be more transparent, and will evaluate its current practices to enhance the scope of services, measurable deliverables, and quantifiable compensation characteristics in professional services contracts.

*Recommendation #9: District officials should provide staff with guidance and clear procedures and expectations for contract management and oversight, outlining key components such as continual monitoring and how to handle compliance issues.*

As discussed in response to Recommendation #7 above, there are many policies, regulations and practices already in place. Additionally, professional development in contract management has been provided to district staff over the past year. The District will also consider the use of qualitative assessments of deliverables to evaluate contractors' performance in appropriate circumstances. Moreover, in its appraisal of District managers who are responsible for the approval or oversight of professional service contracts, the District will assess the effectiveness of their monitoring and evaluation of the contracts under their charge. Finally, as new protocols are developed, the District's Law Department will continue to conduct training sessions to client departments and schools.

*Recommendation #10: The Board should actively oversee change orders associated with a capital project, and assess the impact of change orders on project cost and design.*

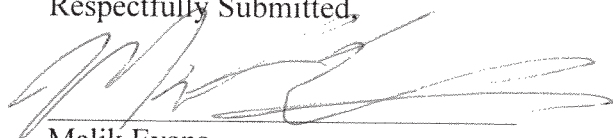
Prior to this draft audit report, the Office of Auditor General performed an internal audit of the District's capital project process and identified change orders as an area of concern. Subsequently, the District has worked to improve the internal change order process, and recognizes that detailed procedures coupled with proper Board oversight and

timely approval must occur whenever change orders occur. We agree that it is critical to understand the impact that change orders have on the District's budget.

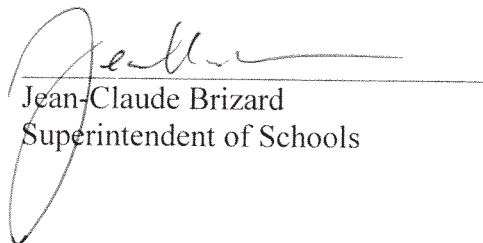
*Conclusion*

The Rochester City School District Board of Education is committed to fiscal accountability through improved oversight and monitoring, meaningful policies, and systemic changes in institutional culture and behavior. Under the current Board and Administration, many of the Comptroller's recommendations or similar changes are and have been in process. We appreciate the recommendations, and the opportunity to provide a response that contextualizes the audit findings.

Respectfully Submitted,



Malik Evans  
President of the Board of Education



Jean-Claude Brizard  
Superintendent of Schools

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

District officials should understand that we audit organizations – in this case, the Rochester City School District – and not individuals. The life and operation of the District spans the tenure of specific individuals. As such, none of our audits focus on just an individual's actions.

#### Note 2

In planning the audit, auditors evaluate whether the audited entity has taken appropriate corrective action to address the results of previous audits reports that are significant within the context of the current audit's objectives. Although some of the findings occurred during our extended audit period, the audit report reflects the controls in place for each scope area addressed as of the end of our fieldwork on October 31, 2008 and points out improvements in controls that still need to be implemented.

#### Note 3

We have amended our report to include a reference to the various changes the District reports it has made to improve internal controls and accountability in the District.

#### Note 4

We agree that, as of the end of our fieldwork, the current administration had not provided SEG members with bonuses and individualized contracts of employment, and we view that as an improvement over past practices. However, the SEG Rules and Regulations that give the Superintendent the authority to do so have not been changed.

#### Note 5

We have modified our report to address these concerns.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, information technology and payroll and personal services.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District's financial transactions as recorded in its databases. Further, we reviewed the District's internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected compensation of the Superintendent's Employee Group, claims processing, contract management and capital projects for further audit testing.

We interviewed current and former District employees, including but not limited to, the Superintendent of Schools, Deputy Superintendent of Administration, Chief of Staff, School Business Official, accounting and payroll supervisors, claims auditor, internal auditor, Chief of Human Resources, former Superintendent of Schools, former Interim Superintendent of schools, former claims auditor, former member of the internal audit staff and, where appropriate, officials from the City of Rochester.

For compensation of the Superintendent's Employee Group, we inquired about internal controls over payroll and the existence of payroll procedures. We also reviewed payroll registers, leave time records, and employment agreements for selected employees to verify that pay rates and leave accrual entitlements were properly authorized.

For claims processing, we focused our attention on the approval of purchases and the approval for payment for various types of goods and services acquired by the District. We tested claims for itemization, sufficient documentation, reasonableness and timeliness of the payment. We interviewed officials, observed transactions and examined claims and checks.

For contracts we reviewed bid documents, resolutions and payment vouchers to determine if payments to the respective professionals and other vendors were made in accordance with written contracts.

For capital projects, we reviewed pertinent documents available, including applications and certificates of payment, change orders, claims, contracts, and plan and bid specifications. We examined

change orders to determine whether they were approved, signed and dated by the appropriate District officials, and paid accordingly.

We conducted this performance audit in accordance with generally accepted government auditing standards (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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