

Lackawanna City School District

Contractual Services

JUNE 2019



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Lackawanna City School District

Audit Objective

Determine whether payments for contractual services were accurate and supported.

Key Findings

- Board-approved contracts or agreements were on file for service providers.
- Payments to two service providers totaling \$477,000 (10 percent) were not supported by sufficient documentation to ascertain that services were rendered in accordance with the written agreements.

Key Recommendations

- Ensure claims for payment from service providers are sufficiently itemized and properly supported.
- Require service providers to submit appropriate documentation that includes the dates and services provided.
- Perform a deliberate and thorough review of invoices to ensure claims for payment are in accordance with written agreements.

District officials agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Lackawanna City School District (District) serves the City of Lackawanna in Erie County. The District is governed by a seven-member elected Board of Education (Board). The Board is responsible for the District's overall management, 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 Assistant Superintendent of Administrative Services (Assistant Superintendent) oversees the District's day-to-day financial operations and supervises Business Office personnel. The Board-appointed claims auditor is responsible for examining all claims or demands against the District and has the authority to authorize or reject payment.

Quick Facts

Students	1,900
2018-19 General Fund Budget	\$53.3 million
Contractual Services Payments	\$8.3 million

Audit Period

July 1, 2016 – January 2, 2019

Our audit testing primarily focused on the 2017-18 school year.

Contractual Services

How Should District Officials Ensure Payments for Contractual Services Are Accurate and Supported?

Payment for services should be based upon board-authorized written contractual agreements that clearly indicate the scope of services to be provided, the time frames for delivering services and the basis for compensation.

Claims for payment should fully itemize actual services to date, evidencing the terms and conditions of the contract are complied with, and should be reviewed by an appropriate department head and the claims auditor prior to payment.

The Board Had Written Agreements with Service Providers

The District paid nine professional service providers \$8.3 million during the 2017-18 school year for various services including information technology support, student transportation, food service, occupational and physical therapy, auditing, legal and maintenance services.

We found that the District had Board-approved contracts or agreements on file for all nine service providers. With written service agreements in place, District officials are in a position to effectively monitor service provider activities and ensure claims are accurately paid.

Payments Were Not Supported by Sufficient Documentation

We reviewed payments totaling \$4.6 million made to the nine service providers to determine if payments were properly audited, supported by sufficient documentation and made in accordance with related contracts or agreements.¹

Payments to the service providers were generally made at the appropriate rates and in accordance with contract provisions. However, we found payments to two service providers totaling \$477,000 (10 percent) were not supported by sufficient documentation to ascertain that services were rendered in accordance with the contract.

The District paid \$275,000 for information technology support services even though the claims lacked descriptions of the services provided and documentation demonstrating how the rate of compensation was determined or by whom. The contract required the District to pay an agreed-upon rate per technology device used on its network. However, neither the District nor the service provider were certain how many devices the District used on the network. District officials told us that the prior Assistant Superintendent and the service provider estimated the

¹ One service provider had multiple contracts with the District totaling approximately \$4 million. Within the information technology services contract we reviewed the most material contract with this provider totaling \$275,000.

number of devices based on recent purchases and user accounts. We reviewed inventory records and scanned devices logged onto the network and found that the amount billed was reasonable. However, department heads and the claims auditor are not in a position to effectively monitor service provider activity and ensure claims paid are accurate if the basis for payment has not been clearly established and documented.

We also found that invoices submitted by the occupation and physical therapy service provider totaling \$202,000 were not sufficiently itemized or detailed to support all hours billed. Although the service provider had a written contract with the District, the contract did not specify documentation requirements to be paid. As a result, the claims auditor approved these claims for payment even though the claims lacked specific dates or adequate descriptions of the services that were provided. However, District officials subsequently obtained additional information from the service provider and were able to determine that charges were appropriate and reasonable.

District officials should require that service providers submit claims with adequate documentation to ensure the District does not pay for services that it does not receive, overpay for services or pay for services that do not comply with contractual conditions and rates.

What Do We Recommend?

District officials should:

1. Ensure that contracts clearly define the basis for compensation and the documentation required for payment.
2. Require that service providers submit documentation that includes the dates and services provided before authorizing payment.
3. Require that department heads perform a deliberate and thorough review of invoices prior to approval to ensure claims for payment are in accordance with written agreements.

The claims auditor should:

4. Properly audit and approve claims prior to payment.

Appendix A: Response From District Officials



Lackawanna City School District

Daniel W. Grant
Assistant Superintendent

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April 12, 2019

Jeffrey D. Mazula, Chief Examiner
Office of New York State Comptroller
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula:

This letter will serve as the written audit response of the Lackawanna City School District to the recently completed OSC audit of our district's contracted services.

The District agrees with the substance of the audit findings. We are pleased to report that the District has already undertaken meaningful steps to address findings. The District appreciates the opportunity for improvement that this audit has provided. Interactions with OSC staff members were consistently professional and collaborative. The audit has allowed us to review and better comprehend our financial processes. We will continue the process of developing corrective actions in order to appropriately address audit findings so as to improve our stewardship of public resources.

We are grateful for the technical assistance that your office provides and we look forward to working with you in the future. In fact, we have already connected with OSC staff on additional topics since the conclusion of the audit. If you have any questions or concerns, feel free to contact me directly at 716-821-5610, ext. 7748 or email me at dgrant@lackawannaschools.org.

Sincerely,

Daniel W. Grant
Assistant Superintendent

Appendix B: Audit Methodology and Standards

We conducted this audit 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. To achieve the audit objective² and obtain valid audit evidence, our audit procedures included the following:

- We interviewed District personnel to obtain an understanding of policies and procedures for the oversight of service contracts.
- We reviewed documentation on file, interviewed appropriate officials and reviewed Board minutes to identify all contractual service providers paid during the 2017-18 school year and determined that the District paid nine service providers approximately \$8.3 million. We selected all payments totaling more than \$4.3 million made to eight providers and judgmentally selected payments totaling \$275,000 made to the ninth provider based on risks identified during our audit survey. The District had multiple contracts with this service provider with payments totaling nearly \$4 million. The majority of these contracts were for support services commonly provided to school districts by this service provider and were deemed low risk based on our knowledge of this provider and school district operations.
- We reviewed all invoices and supporting documentation on file to ensure payments were properly supported, contained sufficient evidence that services were rendered and payments were made in accordance with written agreements. Where sufficient documentation was not on file, we worked with District officials to obtain additional documentation from service providers and verified that services were rendered and payments were appropriate. We also reviewed inventory records and scanned devices logged onto the District's network to ensure that billing for information technology services was reasonable.
- We compared the amounts billed for services to the written agreements to ensure that the District paid the appropriate rates.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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.

² We also issued a separate audit report, Lackawanna City School District – Tuition (2019M-59).

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, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the 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. We encourage the Board to make the CAP available for public review in the District Clerk's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

Office of the New York State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor, Albany, New York 12236

Tel: (518) 474-4037 • Fax: (518) 486-6479 • Email: localgov@osc.ny.gov

www.osc.state.ny.us/localgov/index.htm

Local Government and School Accountability Help Line: (866) 321-8503

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