

MUNICIPAL AUDITING REPORT CITY OF ROANOKE



RCPS Substitutes Follow-Up

November 1, 2019

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AUDIT OBJECTIVES & CONCLUSIONS

Audit Objectives:

1. To determine if the District monitors the payment process to ensure that vendor expectations are met.

Yes – Roanoke City Public Schools (RCPS) now submits payment to Education Solutions Services (ESS) on a weekly basis upon receipt of the invoice. All payments we reviewed were made within 30 days of the receipt of the invoice as stipulated in the agreement.

2. To determine if a process is in place to review one school's invoice in two of the six categories each week, and all invoices once each semester.

Yes – The Licensure Specialist reviews the ESS invoices as stated in management's action plan, and has created a reconciliation log to document this effort, as well as any issues identified during the review.

3. To determine if the District reviews the annual outsourcing report to ensure the School Board has sufficient data to evaluate the effectiveness of the project.

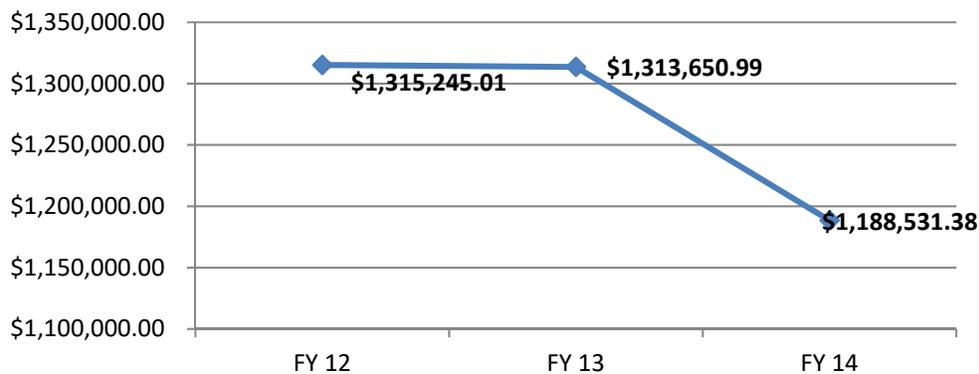
Yes – RCPS presents the annual outsourcing report to the School Board each December for the Board to evaluate the effectiveness of substitute outsourcing.

End of Audit Objectives & Conclusions

BACKGROUND

The implementation of the Affordable Care Act (ACA) in 2015 introduced implications for part-time employees, particularly those who serve as substitutes for the School Division. The Act defines full-time employment as an average of 30 hours or more per week and mandates that the employee is eligible for health insurance. The school administration was concerned about additional administrative costs related to tracking and reporting hours worked, as well as the additional costs of mandated benefits. The salary costs for substitutes alone exceeded \$1 million dollars annually.

Substitute Costs Prior to Outsourcing



After careful analysis, the administration proposed contracting with Source4Teachers to provide substitutes. The Board approved the proposal and the contract took effect January 1, 2015. Under the contract, the Division retains control over:

- Pay rates
- Preferred substitutes
- Selection of candidates, particularly long term placements

Source4Teachers merged with Education Solutions Services, LLC (ESS) in 2017, and now operates under the name ESS. The most recent contract with ESS Northeast LLC, effective July 1, 2019, provides that the vendor will be the exclusive provider of substitute staff for Roanoke City Public Schools, including teachers, instructional assistants and secretaries. The company is responsible for recruiting, hiring, training, payroll processing, and compliance with all applicable employment laws and regulations, including the Affordable Care Act.

ESS applies a markup on the daily rates set by the Division and paid to the substitutes. The markup is ~ 35% at this time and is adjusted annually by the greater of 3% or the applicable

cost of living index rate. This markup covers employment taxes, system and administrative costs, and profit. The contract includes the option for annual renewals through the 2023/24 school year.

Information Systems:

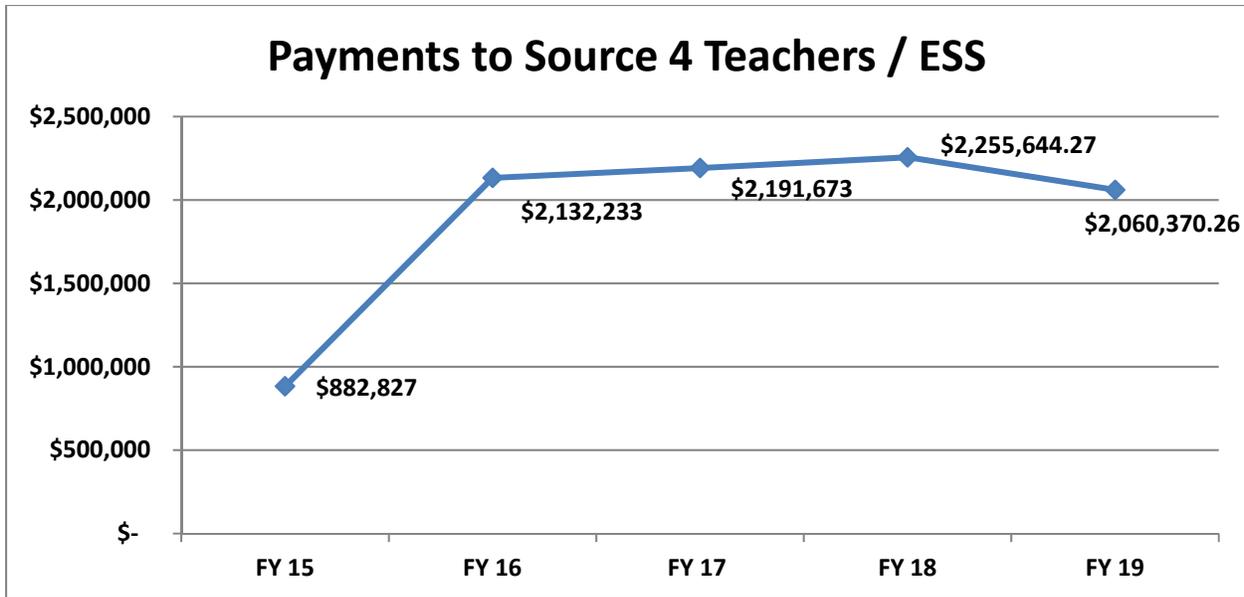
ESS provides an absentee management system (SAMS) through which schools request substitutes. ESS employees sign-in to the SAMS system to select/ accept assignments for which they qualified.

The SAMS system includes a separate time-tracking module, VeriTime, in which substitutes log their arrival and departure times. ESS has a computer at each site for employees to log in. This attendance data feeds into the SAMS system and is the basis for weekly billings to the Division.

ESS mails a weekly invoice to the Division's Human Resources office for each substitute category:

- Teacher
- Instructional Aide
- Special Education Teacher
- Special Education Instructional Aide
- Self-Contained Special Education Instructional Aide
- Clerical

Human Resources validates a sample of invoices each week by reviewing the requests and attendance data in the SAMS system. Validated invoices are then submitted to the Accounting Department for payment to the vendor. Accounting remits payment to ESS every week, typically on Thursday. The Division had paid Source4Teachers/ESS \$9.5 million for services from January 1, 2015 through June 30, 2019:



Fill Rates and Daily Pay:

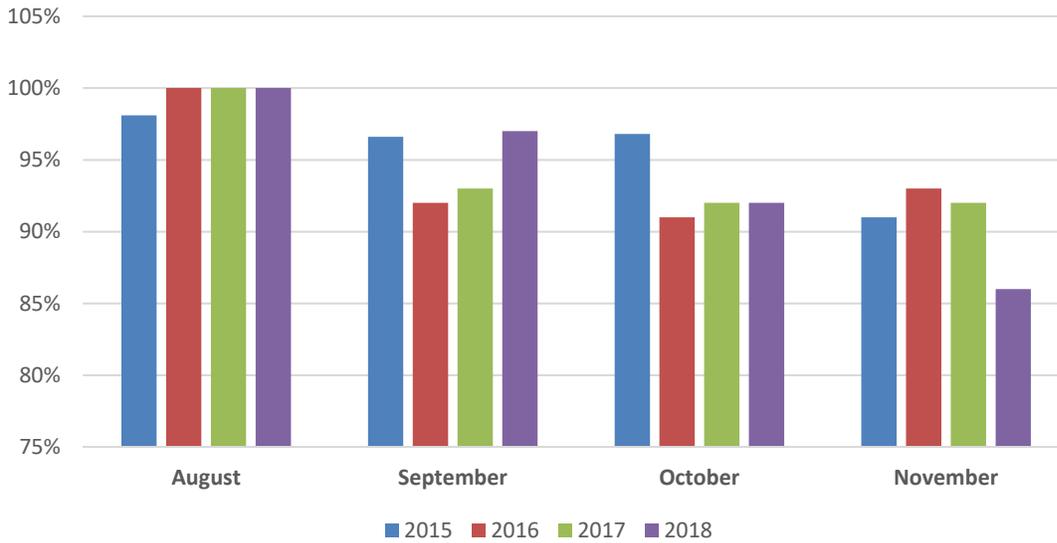
Based on the November 2014 proposal to the School Board, Source4Teachers had been able to fill 98% of substitute requests from Virginia clients. Roanoke City Public Schools reported its fill rate for instructional aides was ~ 58% at that time, and ~ 92% for teachers. Based on the Division’s experience in the Roanoke area, the administration has set the following fill rate goals:

- 95% for teachers,
- 90% for Instructional Assistants and Clerical positions.

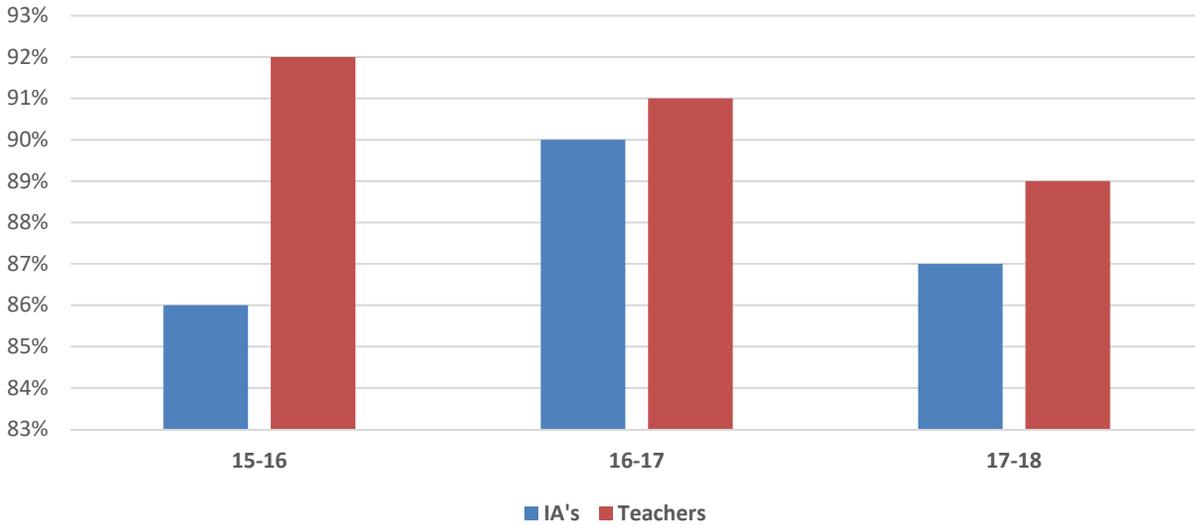
Substitutes who work twenty (20) consecutive school days for the same teacher receive long-term pay beginning the twenty-first (21st) day. In certain situations, a substitute teacher may be paid the long-term rate from the beginning of the assignment, particularly if it is known at the outset that the assignment will be long-term or if a substitute is being asked to open the school year or close the school year.

Outsourcing reports presented to the School Board each December show the following fill rates for substitutes since outsourcing commenced:

Monthly Fill Rates (All Subs)



Annual Fill Rates



The December 2018 outsourcing report notes that 37 substitutes currently participate in the ESS insurance plan. Forty-seven substitutes worked an average of 30 hours or more during the 2017-18 school year meeting the ACA threshold requiring that they be offered insurance.

We completed our original audit of Substitutes in 2017. That audit primarily focused on the background requirements for substitutes, fill rates and vendor performance, cost containment goals, and billing accuracy. Our recommendations addressed timely payment of invoices, reconciliation of invoices, and evaluation of the budgetary impact of outsourcing substitutes on an annual basis.

End of Background

Objective 1: Late Payments

In the prior audit, we found that approximately 20% of weekly invoices were paid more than 30 days after services were provided and after the due date specified on the invoice. Therefore, RCPS was out of compliance with payment terms established in the contract with the vendor, and could be liable for a late charge equal to 1% per month on the outstanding amounts, as well as all of the vendor's reasonable costs of collection, including attorney's fees.

Management planned to monitor the payment process and ensure that vendor expectations are met. Additionally, the vendor was working to deliver the invoices in a timelier manner.

Action Completed / Issues Resolved –Yes

Follow Up – September 2019:

Scope: We reviewed all Fiscal Year 2018-2019 payments made to ESS to determine that RCPS pays amounts owed within thirty (30) days of receipt of invoice as required by the agreement.

Results: ESS emails RCPS Human Resource the following six (6) invoices every week (either on Thursday or Friday), for charges due from the prior week:

1. Teacher
2. Instructional Aide
3. Special Education Teacher
4. Special Education Instructional Aide
5. Self-Contained Special Education Instructional Aide
6. Clerical

The Human Resources Associate reviews the invoices and submits them to Fiscal Services that same day or the following business day. Fiscal Services remits payment to ESS on a weekly basis, upon receipt of the invoices from Human Resources.

Our review of 43 payments containing 265 invoices to ESS from July 1, 2018 through June 30, 2019 identified two (2) payments (4.65%) and 12 invoices (4.5%) paid after the due date. However, these invoices were not received from the vendor until AFTER the due date, due to an issue on the vendor's end. Once the invoices were received by RCPS, they were paid within 10 days. Therefore, all payments were made to ESS within 30 days of receipt of the invoice.

End of Objective 1

Objective 2: Invoice Reconciliation

In the prior audit, we found that two (2) Roanoke City Public Schools Human Resources employees spent a considerable amount of time each week reconciling and validating all six (6) ESS (formerly Source4Teachers) invoices. Staff confirmed RCPS had never incurred a discrepancy that was not resolved through either review of absence details in the SAMS (Aesop) system or the “Prior Period Billing Adjustments” identified by the vendor. Therefore, the risk of inaccurate or invalid charges to RCPS appeared to be minimal.

In response, Management planned to reconcile two (2) of six (6) invoices for one school each week, on a rotating basis. One week each semester, HR planned to reconcile all invoices for all schools.

Action Completed / Issues Resolved –Yes

Follow Up – October 2019:

Scope: We reviewed Fiscal Year 2019 and 2020 reconciliation logs, and reconciled a sample of three (3) weekly invoices paid between May and October.

Results: The new reconciliation process began with invoices for the week ending 8/25/18, per HR’s *Reconciliation Log*. The log lists the school, the invoice, the reviewer’s comments, and how any issues noted were resolved.

The *Reconciliation Log* for Fiscal Year 2019 showed that two (2) invoices were reviewed each week. A full reconciliation was performed on all locations and all categories of invoices for the week ending 11/16/18. According to the log, a second full reconciliation of all locations and categories was scheduled to be performed in June 2019. However, the Licensure Specialist assigned this responsibility left the Division in May 2019.

The log shows that HR had not reconciled invoices since the end of April 2019. The new Licensure Specialist who started on 7/29/19 had not resumed reconciliations when we began our audit fieldwork in October. The Licensure Specialist, with the assistance of another Human Resources Associate, has gone back and reconciled a sample of this school year’s invoices in accordance with the procedure.

We also reconciled a sample of three (3) weekly invoices paid between May and October, with the following results:

- All invoices accurately footed and cross-footed with no differences
- All prior period billing adjustments were valid
- All invoice details agreed to the VeriTime spreadsheets
- The total amount due on each invoice was properly remitted to ESS

We conclude that management has now implemented the planned reconciliation process, and that the process is effective at helping ensure RCPS is correctly billed for substitute services.

End of Objective 2

Objective 3: Outsourcing Effectiveness

In the prior audit, we found that actual cost reductions / avoidance realized in Fiscal Year 2016 from outsourcing the functions for providing substitute employees was ~ \$343,000 which was ~ \$62,000 less than originally projected. The 34% management fee paid to Source4Teachers in FY16 was ~ \$725,000.

Management planned to review the annual outsourcing report to ensure that the School Board has sufficient data to evaluate the effectiveness of the project.

Action Completed / Issues Resolved –Yes

Follow Up – October 2019:

Scope: We reviewed 2017 and 2018 ESS operational reports, RCPS annual outsourcing reports and corresponding School Board Meeting minutes.

Results: Education Solutions Services (ESS) prepares a report for RCPS at mid-year and end-of-year to identify and communicate key measures and results over the time period. The mid-year report reflects data from July to December, while the end-of-year report shows data from July to the following June. The reports outline the following:

- Roanoke City Support Team
- Filled and Unfilled Absences and corresponding Fill Rate %
- Month to Month Comparison
- Day of the Week Analysis
- Fill Rate by Date/Time Entered
- Elementary and Secondary Teacher, Clerical, and IA Fill Rates, by School
- Absence Reasons
- Substitute Pool, Partnership Review and Recruitment Strategies

RCPS communicates fill rate information to the School Board from the ESS report each December through an annual outsourcing report. Monthly fill rates for all substitutes (teachers, instructional assistants, and clerical) are presented for August – November for the three most recent years, while annual fill rates for teachers and instructional assistants are presented for the two or three most recent years. The annual report to the Board also presents Affordable Care Act (ACA) statistics, as well as the total amount paid to ESS for each Fiscal Year.

The annual outsourcing report on substitutes presented to the School Board on December 12, 2017 showed improved fill rates for substitute teachers and instructional assistants since outsourcing with the vendor. The only comment reflected in the minutes was from an Audit Committee member regarding recent audits of most of the outsourced areas over the last few years to assist in determining the value and cost benefits. The comment notes that the audit findings have been largely favorable.

The outsourcing report on substitutes presented to the School Board on December 18, 2018 notes that the fill rates for teachers (89%) and instructional assistants (87%) are good even in this time of positive economic growth. The minutes reflect no questions or comments by board members.

The ESS Recruiter met with the RCPS Interim Executive Director for HR in September 2019 for a briefing due to high absenteeism in the District. They discussed the increase in the number of requests, and the corresponding fill rate decrease. They also addressed root causes, potential resolutions, and ways to combat the issues going forward.

The Interim Executive Director for HR continues to meet with the ESS Recruiter every other week to discuss any significant substitute issues. The Recruiter also checks in periodically with the RCPS Licensure Specialist to address issues such as fill rates in particular locations, days of week, problems with particular substitutes, etc.

While RCPS does not provide a significant amount of data for the School Board to evaluate the effectiveness of the outsourcing of substitutes, the minutes do not reflect that the Board is in any way unsatisfied. Furthermore, processes are in place for regular communication with vendor representatives to provide for timely solutions to significant issues. RCPS's fill rates continue to be higher than they were prior to outsourcing substitutes.

End of Objective 3

SUMMARY OF MANAGEMENT ACTION PLANS

None required.

MANAGEMENT COMMENTS

None provided.

ACKNOWLEDGMENTS

We would like to thank Marcheta Turner, Thelma Marsh, and Angela Carr for their cooperation and assistance throughout the audit.



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