

MUNICIPAL AUDITING REPORT CITY OF ROANOKE



RCPS - Substitutes **July 28, 2017**

Report Number: 18001
Audit Plan Number: 17-107

Municipal Auditing Department
Chartered 1974

www.roanokeva.gov/auditing

Phone 540.853.5235

TABLE OF CONTENTS

Audit Objectives & Scope	1
Background	4
Objective 1 – Educational and Background Requirements.....	7
Objective 2 – Background and Criminal History Review.....	9
Objective 3 – Fill Rates and Performance	12
Objective 4 – Cost Containment Goals	17
Objective 5 – Billing Accuracy.....	24
Summary of Management Action Plans	27
Management Comments.....	28
Acknowledgements	32
Exhibit 1 – Principal Satisfaction Survey Comments	
Exhibit 2 – Principal Satisfaction Survey Questions	

AUDIT OBJECTIVES & SCOPE

Audit Objectives:

1. To determine if substitute teachers meet the educational and background requirements specified in board policy GCE “Part-Time and Substitute Professional Staff Employment” and the Source4Teachers contract.

Yes – Source4Teachers validates educational and background requirements for all new hires as part of the on-boarding process. Appropriate supporting documentation was on file to confirm substitutes met all requirements. The vendor also provides all required training on-site at their Roanoke office using experienced trainers. As required, advanced training is provided through a certified online service.

2. To determine if substitute teachers, assistants and clerical staff undergo the required background and criminal history reviews specified by the Source4Teachers contract.

Yes, with exceptions – Source4Teachers ensure applicants are screened for criminal convictions, tuberculosis, and drugs prior to being hired and allowed to accept placements. Due to the extended time required to receive results from child protective services, applicants can be hired and placed before child abuse and neglect histories are known, if they pass all other screenings. The rationale being that the absence of criminal convictions involving children is a strong indicator that there will be no founded complaints of abuse or neglect. This is a reasonable policy given that an applicant who is otherwise qualified and available, could be prevented from working for several weeks. However, we noted that one (1) of the 20 employees whose records we reviewed was allowed to continue working from October through May without confirmation that he had no founded complaints of neglect or abuse. This was well past the 90 day grace period specified in the policy.

3. To determine if principals are satisfied with the fill rates and performance of substitutes provided through Source4Teachers.

Yes, with exceptions – While teacher fill rates have not yet met the Division’s goals, they have shown incremental improvement and are within a range acceptable to the administration. The majority of school principals who responded to our survey are at least somewhat satisfied with the performance of Source4Teachers. The data indicate there are opportunities to improve fill rates at some schools and to better prepare substitutes for the situations they will encounter. Reasonable efforts are made by the Division and Source4Teachers to monitor unfilled requests and to alert available substitutes to the need.

4. To determine if cost containment goals for substitutes were realized.

No – Actual savings were lower than projected, primarily due to maintaining level staffing in Human Resources after outsourcing and fewer substitutes qualifying for health benefits than expected. In addition, management fees were \$136,910 higher than projected, in part due to increases in the daily rates paid to substitutes beginning July 1, 2015. Overall, the net budgetary impact of outsourcing substitutes was an increase in cost of ~ \$178,095.

5. To determine if substitute services have been billed and paid consistent with the terms of the Source4Teachers contract.

Yes with Exceptions – Due to Source4Teachers sending invoices on a weekly basis and RCPS batching those invoices for payment once a month, approximately 20% of the invoices are paid more than 30 days after the date the invoice is received and verified. The earliest invoices in a batch may not be paid by the stated due date or within 30 days of the invoice received date as required by the agreement with Source4Teachers.

Other than the late payments, we conclude that substitute services have been billed and paid consistent with the terms of the contract. We identified no discrepancies in the invoices reviewed, and all prior period billing adjustments were valid. Source4Teachers paid the correct pay rate to each substitute and charged the correct bill rate to RCPS for all substitutes reviewed. RCPS properly remitted the total amount due on each invoice to Source4Teachers.

Audit Scope:

We reviewed processes in place as of March 31, 2017 for providing substitute employees and validating associated invoices.

We reviewed Source4Teachers employee records for substitutes hired after January 1, 2015.

We surveyed school principals regarding the performance of Source4Teachers as of May 2017.

We analyzed fill rates for substitute requests from January 2015 through April 30, 2017.

We analyzed the costs for substitutes incurred for the 2015-2016 school year, the only full school year completed with outsourced substitutes at the time of our audit fieldwork. We compared these costs to the projected cost savings discussed with the School Board on November 11, 2014.

We reviewed Source4Teachers invoices, personnel, and payroll records for the period of August 1, 2016 through April 30, 2017 to confirm accurate billing.

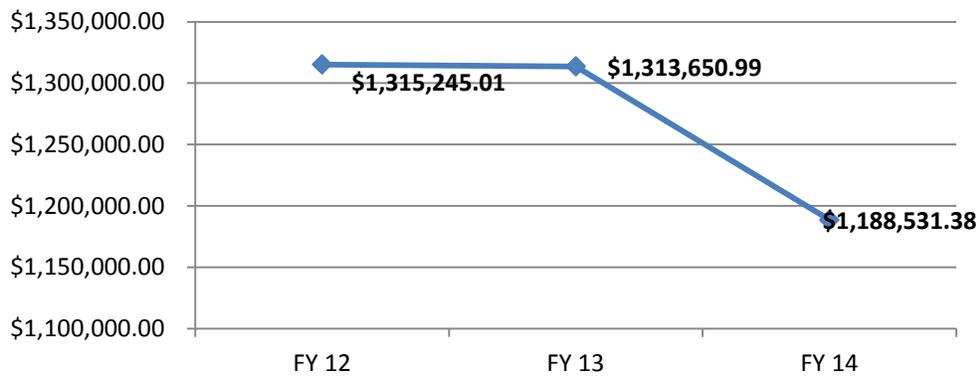
We reviewed all payments to Source4Teachers from July 1, 2016 through May 26, 2017 to determine if payments are made in compliance with the Source4Teachers contract.

End of Audit Objectives and Scope

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

The contract provides that Source4Teachers 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.

Source4Teachers 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 2018/19 school year.

Information Systems:

Source4Teachers provides an absentee management system (SAMS) through which schools request substitutes. Source4Teacher’s employees sign-in to the SAMS system to select/ accept assignments for which they qualified.

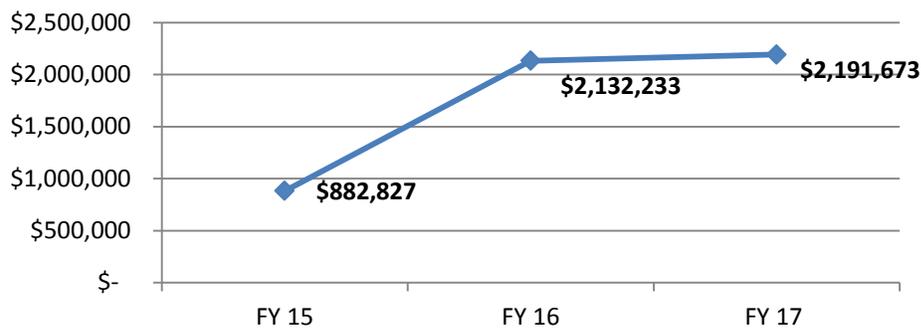
The SAMS system includes a separate time-tracking module, VeriTime, in which substitutes log their arrival and departure times. Source4Teachers has a computer at each site for employees to log in. This attendance data feeds into the SAMS system and is the basis for weekly billings to the Division.

Source4Teachers 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 each invoice by reviewing the requests and attendance data in the SAMS system. Weekly invoices that have been validated are batched together and held until the end of the month to be paid. The Division had paid Source4Teachers a little more than \$5 million for services from January 1, 2015 through April 30, 2017:

Payments to Source4Teachers



Fill Rates and Daily Pay:

Based on the November 2014 proposal to the 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.

In support of these goals, the School Board approved an increase in the daily rates paid to substitutes effective July 2015:

Assistants	Daily Rate	FY 16 Proposed Daily Rates
Short-Term	\$51	\$61 / \$70 (A.S. Degree or 60 Credit Hours) + \$5 supplement for SPED
Long-Term	\$61	\$65 / \$75 (A.S. Degree or 60 Credit Hours) + \$5 supplement for SPED
Teachers	Daily Rate	FY 16 Proposed Daily Rates
Unlicensed	\$80	\$85
Unlicensed (Long-Term)	\$125	\$165
Licensed	\$80	\$90
Licensed (Long-Term)	\$125	\$190

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.

End of Background

Objective 1: Educational and Background Requirements

Audit Objective:

Do substitute teachers meet the educational and background requirements specified in board policy GCE “Part-Time and Substitute Professional Staff Employment” and the Source4Teachers contract?

Yes

Overview:

Source4Teachers is responsible for ensuring each substitute satisfies the minimum requirements specified by the Virginia Department of Education and the Roanoke City School Board, including:

- 18 years of age or older (21 years of age preferred)
- Good moral character
- High school diploma or GED
- Licensed and/ or Certified when specifically requested by the Division
- Familiar with local school policies and procedures
- Training on topics required by the Commonwealth and the Division

Supporting documents are gathered at the time of hiring, such as diplomas, licenses, and certifications. These are maintained in Source4Teacher’s Applitrack system.

Required training is provided by former Roanoke City Public Schools teachers and administrators at Source4Teacher’s Roanoke office. All trainers are required to have a minimum of 7 years of teaching experience.

Once all requirements have been met, Source4Teachers activates the substitute in the SAMS system, enabling him or her to accept assignments.

As of the date of our fieldwork, Source4Teachers had 251 active substitutes it had hired after January 1, 2015, in addition to the 81 substitutes that transferred in from the Division.

We selected a sample of twenty (20) substitutes hired by Source4Teachers after January 1, 2015. Sitting with a Source4Teachers representative in the Roanoke office, we viewed each employee’s record in the Applitrack system. The records included required documentation to confirm age, residency, degrees, and licenses. The date on which an employee completed the required training was noted in the system. Employees who completed advanced training for long-term or special assignments had certificates of completion on file. The results of our test

work were as follows:

- All new hires were 21 years old or older
- All new hires completed the required training before being assigned
- All new hires met the minimum educational requirements

High School Diploma / No College Credit	1	5%
High School Diploma / Some College Credit	4	20%
College Degree / No Teaching License	4	20%
College Degree and Licensed or Certified	11	55%
	20	100%

For those teachers who were marked in the AppliTrack system as having a teaching license, we looked each one up in the “Teacher and Educator License Query” system on the Virginia Department of Education website to confirm licensure.

End of Objective 1

Objective 2: Background and Criminal History Review

Audit Objective:

Do substitute teachers, assistants and clerical staff undergo the required background and criminal history reviews specified in the Source4Teachers contract?

Yes, with exceptions

Overview:

Source4Teachers is responsible for ensuring that substitutes meet local and state requirements for working in public schools. Substitutes cannot have been convicted of a(n):

- Felony
- Offense involving sexual molestation
- Offense involving physical or sexual abuse of a child
- Crime of moral turpitude

Substitutes cannot have been the subject of a founded case of child abuse or neglect; must not have any communicable form of tuberculosis; and must pass a drug screening.

Criminal History Check

Using the School Division's access to the FBI's Central Criminal Records Exchange, Source4Teachers submits the fingerprints and required personal descriptive information for each prospective new hire. The FBI determines if the applicant has been convicted of a felony, a class 1 misdemeanor, or an equivalent offense in another state. The results of the criminal history check are provided to Roanoke City Public Schools Human Resources office, who then forwards them to Source4Teachers to evaluate and upload into the Applitrack system.

Source4Teachers may hire a substitute with misdemeanor convictions that are not a crime of moral turpitude and that do not involve children. This would require additional approval from a District Manager or Area Manager with Source4Teachers. The approving manager signs and dates the FBI report to evidence his or her approval.

Child Protective Services Check

The applicant completes the Virginia Department of Social Services Central Registry Release of Information Form, has it notarized, and mails it to the Department of Social Services. The Virginia Department of Social Services performs the review and mails the results directly to Source4Teachers, which are then uploaded into the Applitrack system. Virginia code requires

the Department of Social Services to respond to such requests in cases where there is no match in the central registry within 10 business days of receipt of such request. In cases where there is a match in the central registry, the Department of Social Services is required to respond within 30 business days of the receipt of such request.

If an applicant has cleared the criminal history check and the only pending item is the child protective services results, Source4Teachers will tentatively hire the applicant. Source4Teachers policy provides that the person may work as a substitute for up to 90 days while child protective services results are pending. The 90 days date is entered into the SAMS system, which then issues an alert if the results have not been recorded in the system by the deadline.

Tuberculosis Testing

Applicants are responsible for obtaining a tuberculosis test via a physician of their choice. The physician either completes and signs the Results of Tuberculosis Screening form which Source4Teachers will provide to the applicant, or completes and signs their own form. The form must document the results of the test (which should be negative). The applicant provides the form with the results to Source4Teachers for uploading to the Applitrack system.

Drug Screening

A Source4Teachers representative performs the required drug screening at the RCPS Administration Building at the same time as fingerprinting (Criminal History Check). The applicant authorizes the saliva test per their signature, printed name and date on the Source4Teachers Record of Drug Test form. The Source4Teachers representative certifies the test results per their signature, printed name and date on this same form. The test is administered by swabbing the mouth and results are available within 12 minutes. The results are recorded on the Record of Drug Test form, which is later imaged and uploaded into the Applitrack system.

The current Record of Drug Test form documents the results of the screening for each individual substance:

- Phencyclidine/Benzodiazepines (PCP/BZO)
- Marijuana (THC)
- Cocaine (COC)
- Meth-Amphetamines (MET/MTH)
- Amphetamines (AMP)
- Opiates/Morphine (OPI/MOR)

Results of Audit Testing:

Using the sample we selected to verify educational requirements in objective 1, we reviewed the supporting documents for the following screenings:

Criminal Histories:			
- No convictions noted	17	85%	
- Misdemeanors only, manager approved	3	15%	
	20	100%	
Child Abuse/Neglect – No Complaints:			
- Results received before active	4	20%	
- Results received within 90 day window	14	70%	
- Results pending (< 90 days)	1	5%	
- Results pending (> 90 days)	1	5%	Applied 8/16; hired 10/11/16; form returned twice for missing info; no results on file; made inactive 6/2/17
	20	100%	
Tuberculosis:			
- No communicable forms identified	20	100%	
Drug Screenings:			
- No listed drugs identified	20	100%	

End of Objective 2

Objective 3: Fill Rates and Performance

Audit Objective:

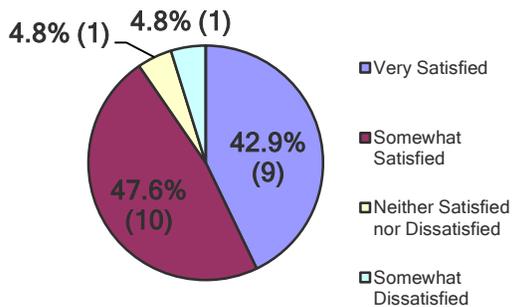
Are principals satisfied with the fill rates and performance of substitutes provided through Source4Teachers?

Yes, with exceptions

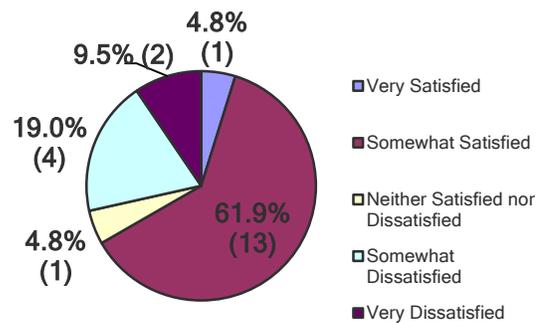
Principal Survey

In collaboration with the Division’s Human Resources office, we developed a brief survey through which School Principals could provide feedback about their satisfaction with Source4Teachers. The survey was administered by our office, through email with a link to a web-based survey site. Principals were not asked to identify their school and comment boxes were provided for each question.

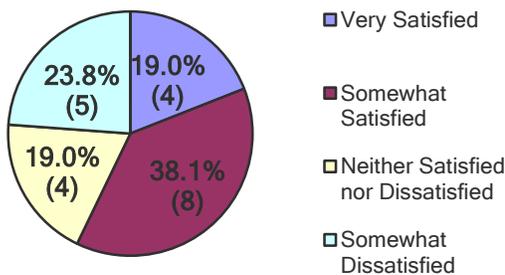
The responsiveness of Source4Teachers staff when you contact them.



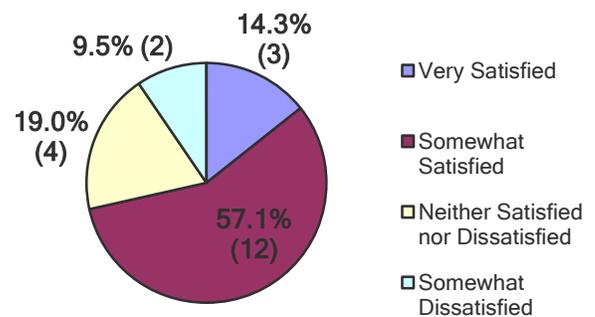
The availability of substitutes provided by Source4Teachers to fill absences.



The effectiveness and professionalism of substitutes provided by Source4Teachers.



The overall quality of substitute services provided by Source4Teachers.



All comments from the survey are listed in **Exhibit 1** and provide some context for the survey results. However, there was no historical data on Principals’ satisfaction with substitutes that could be used to contrast current services. The raw numbers indicate there are opportunities for improving the fill rates (availability) and training (effectiveness and professionalism). Our sample testing of age, degrees, and licensure in objective 1 indicated that a substantial proportion of substitutes hired by Source4Teachers have the requisite credentials that should enable them to be effective.

Overall, we would characterize the results of the survey as positive. Out of a total of 126 responses:

- 79% (99) were “very satisfied” or “somewhat satisfied”
- 10% (13) were “neutral”
- 11% (14) were “somewhat dissatisfied” or “very dissatisfied”

See **Exhibit 2** for the survey questions.

Fill Rates

We obtained reports on monthly fill rates from January 1, 2015 through April 30, 2017 from Source4Teachers. Our schools requested a total of 43,741 substitutes over this period, with 4,254 positions (~ 10%) going unfilled. The Division’s fill rate goals are:

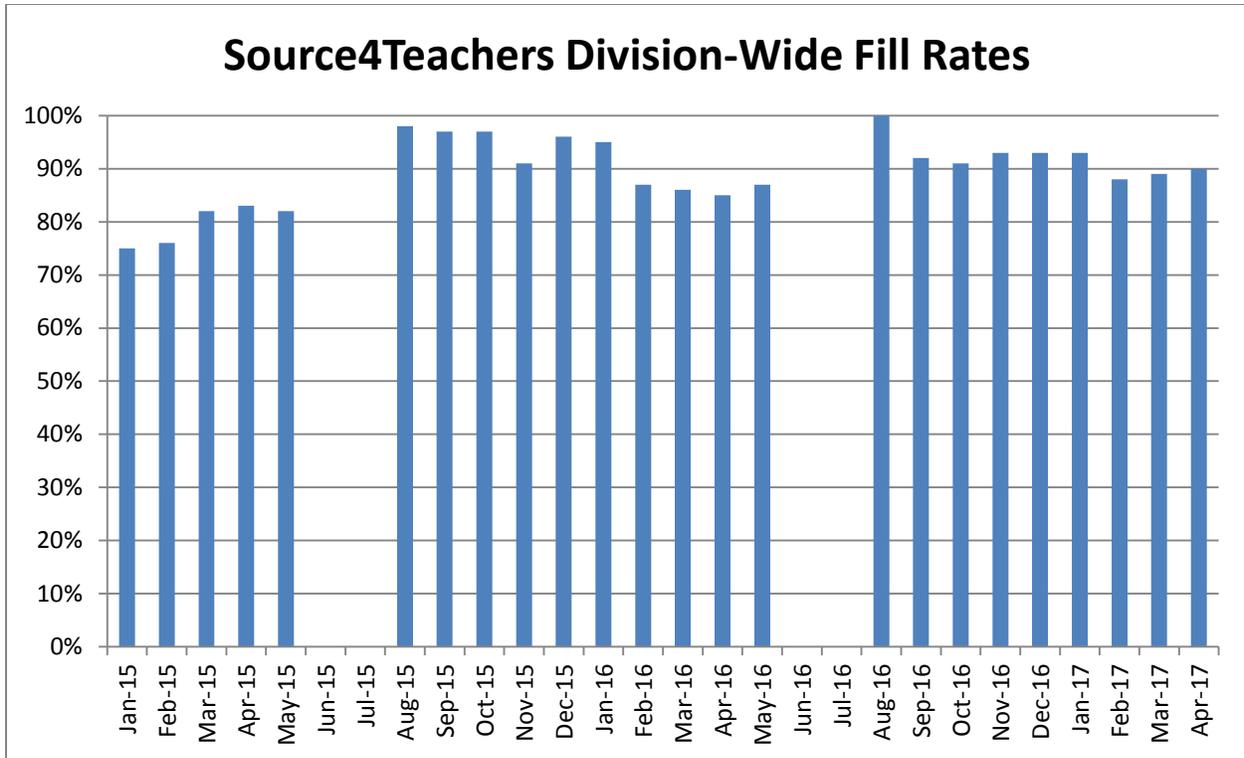
- 90% for Clerical and Instructional Assistant positions
- 95% for Teachers

School was in regular session for 24 months during the period from January 1, 2015 through April 30, 2017. Monthly fill rates broke down as follows for each type of request:

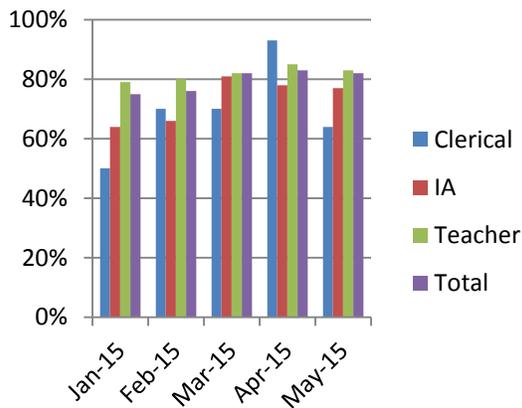
	< 90%	90 to 94%	≥ 95%
Clerical	11	5	8
IA	13	7	4
Teacher	11	6	7

The combined monthly fill rates for all types of requests indicate Source4Teachers experienced challenges in the early months of the contract as it recruited its local workforce. Per the minutes of the February 24, 2015 School Board workshop, the Instructional Assistant fill rate prior to outsourcing was 58%. The annual fill rate for the 16/17 school year was 90% for Instructional Assistants, representing a 32% increase. The annual fill rate for Teachers for this same time period was 91%, relatively consistent with historical trends.

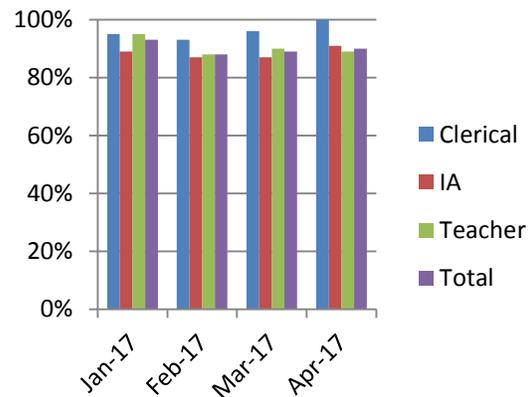
Fill rates are higher in the months leading up to winter break and decline after January. Spring months' fill rates have incrementally improved in the 15/16 and 16/17 school years, as depicted on the following charts:



Fill Rates January - May 2015



Fill Rates January - April 2017



As the person assigned responsibility for overseeing the Source4Teachers contract, the Executive Director for Human Resources constantly monitors fill rate performance. She meets regularly with Source4Teacher's Area and District Managers to discuss performance and to work jointly on strategies to increase fill rates.

Based on the initial challenges with fill rates in 2015, the Executive Director for Human Resources prepared a report for the Superintendent in advance of the 15/16 school year. The report outlined the issues and plans for improving fill rates on Mondays, Fridays, and at specific schools.

Source4Teachers provides regular reports and quarterly updates on performance, which include the following:

- Notable Facts
- Day of the Week Analysis
- Fill Rate by Month
- Fill Rate by Date and Time Entered
- Fill Rates by School Type
- Absence Reasons

Additionally, employees in the Human Resources office have access to the SAMS system and can run reports as needed to monitor key performance indicators.

The school administration prepared a report on outsourcing for the Board that included information on substitutes. The report was discussed at the December 13, 2016 Board meeting and compared monthly fill rates for August through November 2015 and 2016. The school administration plans to continue reporting to the Board on outsourcing annually.

Unfilled Requests

To gauge the potential significance of unfilled **teacher** positions, we looked at the number of sub requests by location using average daily membership (ADM) as the basis for determining proportionality. On average, elementary schools requested 2.60 substitute teachers per student over a period of 24 school months. Schools experiencing a proportionately higher number of teacher absences / requests for substitute teachers were:

- Garden City (2.61)
- Hurt Park (3.07)
- Wasena (3.37)
- Fishburn Park (3.98)
- Roanoke Academy (4.80)

The fill rates for these elementary schools were in line with the overall average of 92% for all elementary schools, with the exception of Hurt Park. Its fill rate of 86.9% combined with higher demand translated to 145 unfilled requests over the 24 month period, or ~ 6 per month.

The middle school ratio for substitute teacher requests was 2.35 per student:

- Madison (1.72)
- Addison (2.18)
- Breckinridge (2.43)
- Jackson (2.48)
- Wilson (2.95)

Fill rates for all middle schools were closely grouped around an average of 89%, with Jackson having the most unfilled requests (173 or ~ 7 per month) and the lowest fill rate (88.1%).

The size and complexity of each school site are factors that contribute to unfilled requests. Peak demand that occurs around weekends, holidays, and spring testing is a key driver behind fill rates. The pool of approved substitutes is naturally constrained by the laws of supply and demand. When demand deviates too much based on peaks and troughs, it is difficult to maintain a cache of people in reserve who have passed the rigorous screening process and don't require steady work.

While fill rates for teachers have not yet met the Division's goals, they have shown incremental improvement and are within a range acceptable to the administration. The Human Resources office has processes in place to monitor the performance of Source4Teachers and to enable them to make timely changes to improve services, as needed.

The majority of school principals who responded to our survey are at least somewhat satisfied with the performance of Source4Teachers. However, there are opportunities to improve fill rates at some schools and to better prepare substitutes for the situations they may encounter.

End of Objective 3

Objective 4: Cost Containment Goals

Audit Objective:

Were cost containment goals for substitute services realized?

No

Overview:

The graphic below is from the November 11, 2014 presentation to the Roanoke City School Board related to outsourcing substitute services.

OUTSOURCING COST SAVINGS

Item	Savings 2013-14
FICA (0.0765)	\$90,923
Subfinder	\$20,000
HR Personnel (Subfinder Specialist)	\$61,186
Estimated Benefit Additions (15)	\$165,000
Worker's Comp Range	\$8,000 - \$250,000
ACA Tracking/ Reporting (additional staff)	\$60,000
Projected Savings	\$ 405,109 - \$647,109 
Net Change Range (Cost less savings)	Estimated Budget Neutral with perhaps slight additional cost

One of the primary concerns that prompted the school administration to consider outsourcing substitutes was the cost implications of the Affordable Care Act (ACA). The ACA would require organizations to provide healthcare benefits to part-time employees who had previously not received them. The school administration estimated as many as 15 substitutes would qualify for benefits under the ACA. The effort required to track and effectively manage hours worked by

part-time employees, along with additional reporting requirements, was expected to require an additional full time employee in Human Resources.

The administration's analysis projected that the 34% markup charged by Source4Teachers would be equivalent to the costs to administer the function in-house. The markup was estimated at \$404,105 compared to cost savings of between \$405,109 to \$647,109.

The following analysis compares each element of the projected cost savings to the actual savings realized as a result of outsourcing substitutes to Source4Teachers.

Federal Insurance Contributions Act (FICA)

Employers must pay FICA contributions equal to 7.65% of an employee's pay, within certain caps for higher wage earners. This element of cost for substitute teachers was shifted to Source4Teachers and has the effect of reducing the markup on daily rates to 26.35%.

The School Division paid Source4Teachers \$2,132,233 for substitute services for the school year ending June 30, 2016. Based on the contractual markup of 34%, Source4Teachers should have made direct payments to substitutes totaling \$1,591,218. The associated FICA costs on this amount of payroll would be **\$121,728**. This exceeds the projected costs savings and is in part a reflection of the higher daily rates adopted in 2016.

Subfinder Software

The Human Resources office utilized the Subfinder software to manage substitute requests and placements. The Division incurred a monthly fee for the license to use the software. The last renewal agreement for the Subfinder software specified a monthly fee of \$1,937.36. Assuming the fee would have been paid for all 12 months, the software costs avoided in fiscal year 2015/16 totaled **\$23,248**.

Human Resources Staff

A significant element of the cost savings from outsourcing was the elimination of the Subfinder Specialist position in Human Resources and avoiding the necessity of adding a position to effectively manage ACA requirements. Prior to outsourcing substitutes, Human Resources was budgeted 9.0 full time equivalent employees.

Our review of Human Resource's position control listing in the 2015/16 line item budget found that the Subfinder Specialist position continued to be listed, but was denoted as being "vacant." Full time equivalents remained unchanged at 9.0.

The 2016/17 line item budget continued to show 9.0 full time equivalents in Human Resources. The Subfinder Specialist position was removed and a "Human Resources Generalist" position was added in its place at a salary of \$42,148.

Our analysis was based on the expectation that the number of full time equivalents in Human Resources would be reduced from 9.0 to 8.0 after outsourcing substitutes. On this basis, we considered the addition of the generalist position as an offsetting cost in our analysis. Using the salary plus benefits ratio applied by the administration in its 2014 presentation (38.73%), the total cost of the additional position is estimated to be **\$58,472**.

Position	Projected Savings	Actual Savings	Difference
Subfinder Specialist Eliminated	\$61,186	\$61,186	\$0
Additional Position Avoided:	\$60,000	\$1,528	(\$58,472)
Total:	\$121,186	\$62,714	(\$58,472)

Benchmarking the number of staff in the Human Resources office was outside of the scope of this audit. Management's comments regarding staffing can be found on pages 28-31.

Affordable Care Act (ACA)

The school administration projected as many as 15 substitutes would qualify for health benefits under ACA rules. Using \$11,000 as the average benefit cost per employee borne by the Division, projected annual savings were \$165,000.

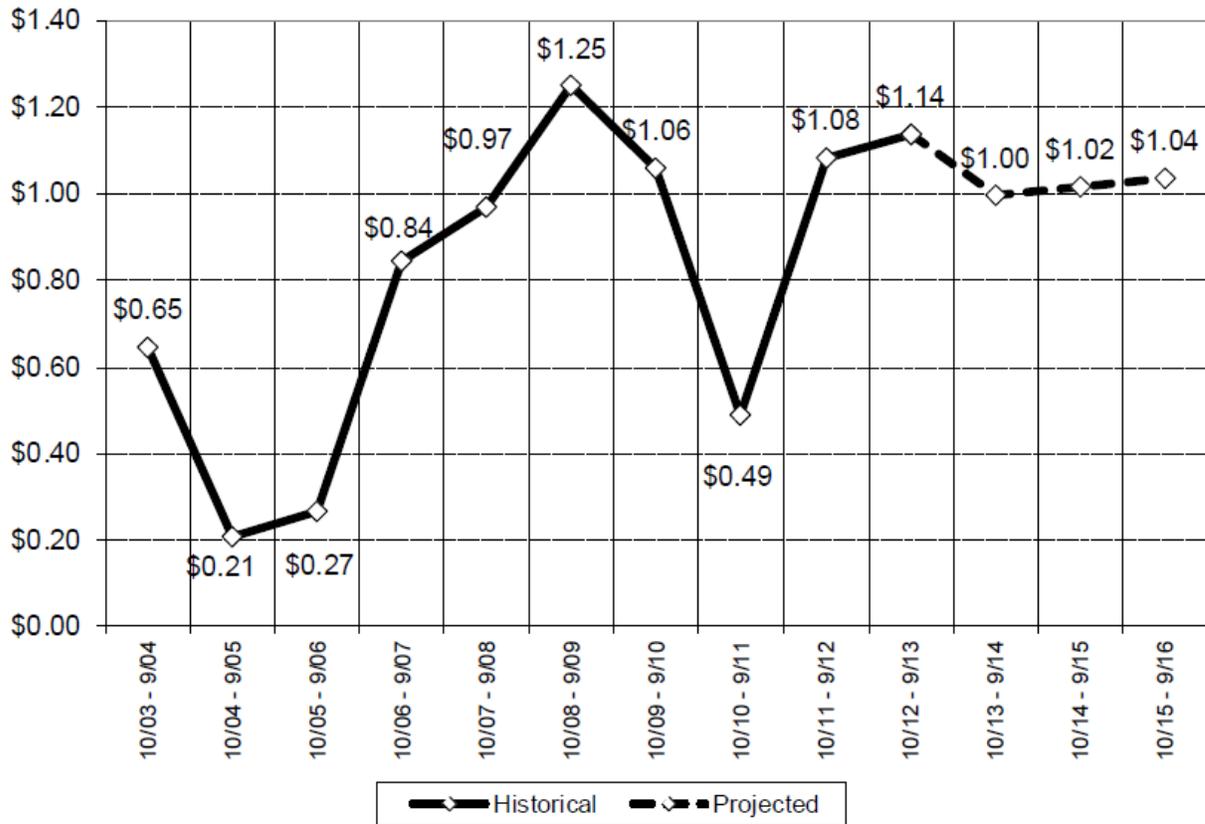
Based on Source4Teachers records, eight (8) substitutes were eligible for ACA benefits during the 2015-16 school year and ten (10) were eligible for the 2016-17 school year. Based on the two (2) year average, annual cost avoidance was actually **\$99,000**.

Workers Compensation

The School Division is self-insured for workers compensation up to a maximum amount at which time stop loss (excess) insurance begins paying. The school administration estimated the Division's exposure to workers compensation losses related to substitute employees was in the range of \$8,000 - \$250,000. The range was based on the Division's loss experience trends per

\$100 of payroll as determined by an independent actuary. The Division's projected loss rate was \$1.02 per \$100 of payroll for October 2014 through September 2015.

**Graph III-1
Loss Rate per \$100 of Payroll**



Based on estimated payroll costs of \$800,000 for substitutes in fiscal 2013/14, and the projected loss rate of \$1.02 per \$100 of payroll, the minimum projected loss is \$8,160. The maximum projected loss of \$250,000 was included in the range to recognize the potential for a large claim, acknowledging that the probability is very low.

The actuarial report below shows that about 92% of non-zero claims result in payouts of less than \$10,000 and account for ~ 14% of the total incurred costs. The remaining 8% of the non-zero claims account for 86% of incurred costs. The following table shows that 18 cases exceeding \$100,000 in payouts were incurred from 1997 through 2013.

**Table III-4
Size of Loss Distribution**

Layer (1)	Total Reported Claims (2)	Percent of Total (2)/Total(2) (3)	Cumulative Percent of Total (4)	Total Reported Incurred Losses (5)	Percent of Total (5)/Total(5) (6)	Cumulative Percent of Total (7)
(A) \$1 to \$5,000	1,599	89.3%	89.3%	\$983,147	10.7%	10.7%
(B) \$5,000 to \$10,000	46	2.6%	91.8%	328,377	3.6%	14.2%
(C) \$10,000 to \$25,000	62	3.5%	95.3%	1,049,715	11.4%	25.6%
(D) \$25,000 to \$50,000	38	2.1%	97.4%	1,350,728	14.6%	40.2%
(E) \$50,000 to \$100,000	28	1.6%	99.0%	1,988,633	21.6%	61.8%
(F) \$100,000 to \$250,000	16	0.9%	99.9%	2,756,750	29.9%	91.7%
(G) \$250,000 to \$500,000	2	0.1%	100.0%	764,997	8.3%	100.0%
(H) \$500,000 to \$750,000	0	0.0%	100.0%	0	0.0%	100.0%
(I) \$750,000 to \$1,000,000	0	0.0%	100.0%	0	0.0%	100.0%
(J) Over \$1,000,000	0	0.0%	100.0%	0	0.0%	100.0%
(K) Total (A) ... (J)	1,791	100%		\$9,222,346	100%	

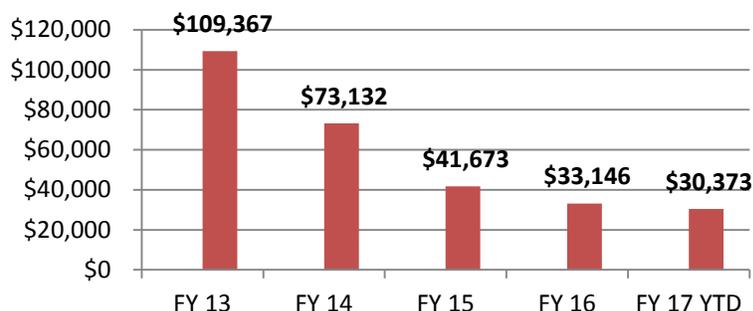
The risk of work related injuries varies based on the nature of work performed and the environment in which it is conducted. Substitute employees were not tracked as a separate job classification for the purpose of reporting historical workers compensation losses. For purposes of estimating workers compensation costs avoided, we applied the Division's overall loss rate of \$1.02 per \$100 of payroll. Based on our computation of \$1,591,218 paid to substitutes by Source4Teachers in 2015/16, the exposure would be **\$16,230**.

Unemployment Costs

Per the presentation to the School Board on November 11, 2014, unemployment costs were listed as a savings item due to outsourcing; however, no specific amount was projected. The presentation indicated a "reduction in district's costs of workers' compensation, general liability insurance, and unemployment costs." Substitutes qualify for unemployment during the summer months when the opportunity to work is not offered.

The Division's payments to the Virginia Employment Commission (VEC) over the past five (5) fiscal years have trended down, as shown of the following chart:

Payments Made to the VEC - Past 5 Fiscal Years



Fiscal year 2014 was the last full year prior to outsourcing substitutes, and fiscal year 2016 was the first full year of outsourcing. While it is likely the entire decline is not related to outsourcing substitutes, we counted the **\$40,000** difference between 2014 and 2016 as cost savings.

Overall Savings (Cost Avoidance)

Based on our analysis, overall savings (cost avoidance) from outsourcing substitutes were lower than projected.

Summary of Annual Savings	Actual Savings	Estimated Savings	\$ Difference	% Difference
FICA	\$ 121,728	\$ 90,923	\$ 30,805	34%
Subfinder	\$ 23,248	\$ 20,000	\$ 3,248	16%
Subfinder Specialist Eliminated	\$ 61,186	\$ 61,186	\$ -	0%
Additional Position Avoided	\$ 1,528	\$ 60,000	\$ (58,472)	-97%
ACA	\$ 99,000	\$ 165,000	\$ (66,000)	-40%
Workers Comp	\$ 16,230	\$ 8,000	\$ 8,230	103%
Unemployment	\$ 40,000	\$ -	\$ 40,000	100%
Total	\$ 362,920	\$ 405,109	\$ (42,189)	-10%

The 34% management fee paid to Source4Teachers for the year ending June 30, 2016, totaled \$541,015. This amount was \$136,910 higher than projected (\$541,015 versus \$404,105).

Actual Savings / Avoided Costs:	\$362,920
Actual Vendor Markup:	\$541,015
Net Budget Impact of Outsourcing Substitutes:	\$178,095

Increases in daily rate paid to substitutes were approved by the School Board in order to keep RCPS competitive with other surrounding school divisions. Increased daily rates would not have increased the Division's fixed costs, such as hiring and payroll processing functions, when substitutes were managed in-house. Under the outsourcing model, management fees increase proportionately with changes in the daily rates.

Based on our discussions with Division management, there may also have been an increase in the utilization of substitutes. Virginia began allowing expedited retesting for elementary students after substitutes were outsourced. Teachers work individually with students to prepare them for retesting and need substitutes to manage their classrooms during this time.

End of Objective 4

Objective 5: Billing Accuracy

Audit Objective:

Have substitute services been billed and paid consistent with the terms of the Source4Teachers contract?

Yes – with Exceptions

Overview:

The contract with Source4Teachers requires the Division to pay the company monthly within thirty (30) days of receipt of the verified invoices for that month. The Division is liable for a late charge equal to 1% per month on outstanding amounts.

Source4Teachers invoices every week, either on Thursday or Friday, for services provided the prior week. Individual invoices are prepared as follows:

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

The vendor emails a spreadsheet for each invoice containing detailed information from the VeriTime system that records time and attendance of substitutes. The Division's Licensure and Substitutes Specialist runs the Absence Interactive report from the Source4Teachers absence management system (SAMS) showing requests for substitutes entered by the schools.

The Human Resources office validates each invoice by comparing it to the VeriTime spreadsheet and the Absence Interactive report. Any discrepancy is researched in the SAMS system and through contact with the school involved, as needed.

Once verified, the Division holds weekly invoices until the end of the month when they are paid by wire transfer.

Invoice Accuracy

We reviewed invoices paid for the weeks ending April 14, March 31, and February 10, 2017, agreeing details to the VeriTime spreadsheet and the SAMS Absence Interactive report. We

also validated all prior period billing adjustments to supporting documentation to ensure the adjustments were warranted.

We identified no discrepancies in the invoices reviewed, and all prior period billing adjustments were valid. All invoice details agreed to the VeriTime spreadsheets and the SAMS Absence Interactive reports, and we identified no instances where a substitute was billed when not provided. We confirmed that the Division properly remitted the total amount due on each invoice to Source4Teachers.

The Human Resources office spends approximately eight (8) staff hours each week validating invoices from Source4Teachers. According to Human Resources staff, RCPS has not identified any invoicing errors. The results of our review also support that the Source4Teachers weekly invoices are accurate and that the proper amount of funds are being remitted to the vendor.

We recommend that Human Resources reconcile a sample of transactions from the weekly invoices rather than all of them. This would save significant staff time while continuing to provide reasonable assurance that invoices are correct.

Pay Rates

We reviewed payments made to a sample of 20 substitutes and the charges invoiced to RCPS for those substitutes, for days worked during the weeks ending April 14 and March 31, 2017. We reviewed documentation maintained in Source4Teachers personnel files to confirm the following:

- a. 1st day as a substitute in the position (used to calculate # of days teaching) – *Long Term assignments only*
- b. Number of college credits and/or college degree held
- c. Teaching License

We also reviewed Source4Teachers payroll files to confirm the daily rate paid by the vendor to the substitute. We recalculated the rate billed to RCPS based on the daily rate paid by Source4Teachers and confirmed the rate agrees to the appropriate bill rate per the Pricing Plan included with the *Addendum to Extend Agreement through June 30, 2017*.

Our review identified that Source4Teachers paid the correct pay rate to each substitute and charged the correct bill rate to RCPS for all 20 substitutes in our sample. Source4Teachers maintains appropriate documentation to support the rates paid to each substitute (and subsequent charges to RCPS).

Payments to Source4Teachers

We reviewed all Fiscal Year 2016-2017 payments made to Source4Teachers (as of May 26, 2017), to determine that RCPS pays amounts owed within thirty (30) days of receipt of invoice as required by the agreement, and that the Division has not submitted duplicate payments to the vendor. Due to Source4Teachers sending invoices on a weekly basis and RCPS batching those invoices for payment once a month, approximately 20% of the invoices are paid more than 30 days after the date the invoice is received and verified. The earliest invoices in a batch may not be paid by the stated due date or within 30 days of the invoice received date as required by the agreement with Source4Teachers.

While we did not identify any duplicate payments made in Fiscal Year 2016-2017, we did note that 55 of the 270 weekly invoices (20%) were paid more than 30 days after services were provided and after the due date specified on the invoice. If late charges would have been applied, RCPS would have been responsible to pay \$3,279 (1% per month on the outstanding amounts) thus far in Fiscal Year 2016-2017, not including attorney's fees. However, our review revealed that RCPS has not paid any charges to the vendor for late payments.

Other than the late payments, we conclude that substitute services have been billed and paid consistent with the terms of the contract.

End of Objective 5

SUMMARY OF MANAGEMENT ACTION PLANS

Late Payments	
<p>The District will continue to monitor the payment process and ensure that Source4Teachers expectations are met. Based on the information provided by Source4Teachers, they are working to deliver the invoices in a timelier manner which may satisfy the auditor’s concern.</p>	
Assigned To:	Target Date
Sandra Burks, Executive Director for Human Resources	Not applicable

Invoice Reconciliation	
<p>Invoices are reviewed weekly and reconciled by the Department of Human Resources utilizing 8 hours of work time weekly. As verified by the audit, there have been no discrepancies in the invoices during the entire contract. As a result, the Human Resources department will implement a new review process whereby one school’s invoice in two of the six categories (Substitute Teacher, Special Education Substitute Teacher, Instructional Assistant, Special Education Instructional Assistant, Special Education Self-Contained Instructional Assistant and Clerical) chosen randomly each week is reconciled. Schools and categories will be rotated weekly. Provided that there are no discrepancies, the review of one school each week will continue as the administration’s review of the invoice. Once each semester, a week will be chosen at random, to do a full reconciliation.</p>	
Assigned To:	Target Date
Sandra Burks, Executive Director for Human Resources	August 30, 2017

Outsourcing Costs	
<p>The district will review the annual outsourcing report to ensure that the School Board has sufficient data to evaluate the effectiveness of the project.</p>	
Assigned To:	Target Date
Sandra Burks, Executive Director for Human Resources; Kathleen Jackson, Chief Financial Officer	December 2017

End of Summary of Management Action Plans

MANAGEMENT COMMENTS

The following comments are offered in response to several of the objectives presented in the Municipal Auditing Report RCPS-Substitutes, Report Number 18001.

Objective 2: Background and Criminal History Review (*Municipal Auditing Report, page 8*)

The review confirmed that the background and criminal history requirements are being met by Source4Teachers with one anomaly. It is required that a Child Protective Services check be conducted, which is done by submitting a release of information form to the Department of Social Services. The anomaly occurred due to delays in reporting from the Department of Social Services as well as delays in a timely refile of the request. An employee may be asked to refile if there is incomplete data such as previous marriages not being listed, an incomplete former address, etc. Below is the statement from Joseph Fitzgerald, Regional District Manager, Source4Teachers, regarding the one individual for whom a timely response was not received:

We had a substitute that worked from October 2016 to May 2017. The CPS form was submitted to VDSS three times (8/19/16, 12/2/16 & 4/7/17) due to information provided by the substitute. Response times from VDSS ranged from at minimum 54 calendar days to over 90 calendar days, during each submission.

The substitute was hired on 10/11/16 according to our hiring policies and guidelines as we did have a Virginia State Police/FBI Fingerprint Background completed on file and the results were within hiring parameters. However, extensions that were given so that the substitute could continue to work were not according to our internal policy. Ultimately on 7/6/17, VDSS signed the form indicating a clean CPS record.

I have called and talked with Kim Davis from VDSS about the turnaround times and was told that all forms are completed in the order that they are submitted to VDSS and that there is no priority given to school division submissions.

We are changing our policy. When the CPS form is returned due to incomplete information, we will require that the substitute complete the form **within 2 business days** of our receipt. This change will allow us to resend the form more timely and thus receive confirmation from VDSS sooner.*

We are confident that with the addition of this policy, this should not occur again. Our Human Resource Department is closely involved with this situation and will also be monitoring our internal policies as we move forward.

**Source4Teachers Policy*

Objective 3: Fill Rates and Performance (*Municipal Auditing Report, pages 12-15*)

Overall Source4Teachers has met an acceptable standard in the fill rate for substitutes. Roanoke has consistently had an unemployment rate at or below the state of Virginia, and as such, it is challenging to fill temporary, part-time positions. The teacher fill rate has ranged from 92% in 2015-16 to 91% in 2016-17. The goal is to increase the fill rate to 95%. Source4Teachers employs two full-time workers for the Roanoke project as well as provides administrative support from a local and regional manager. Additionally, the Roanoke Source4Teacher team is supported by a corporate team for long-term substitutes. Substitutes and RCPS employees may contact Source4Teachers via telephone, web and email.

Of particular note is the significant increase in the fill rate of Instructional Assistant substitutes, who primarily work with our Special Education population. Instructional support for Special Education services is determined through student Individualized Education Plans. This support is delivered through a combination of teacher and Instructional Assistant support and is required by state and federal law in order to be in compliance with Special Education regulations. Prior to outsource, RCPS had a fill rate of 58%. In 2016-17, Source4Teachers had a fill rate of 90%, an increase of 32%.

An additional factor, which did not exist prior to outsourcing, is the increased requests for teacher substitutes in the spring of 2016 and 2017 to assist with state testing. There was a 16% increase in substitute teacher requests from May 2015 to May 2017 representing an additional 328 requests in May 2017 and an additional 322 requests in May 2016. As noted in the audit report, it is difficult to maintain a pool of substitutes in reserve to accommodate an increased demand that is limited to a specific time of the year.

Objective 4: Cost Containment Goals (*Municipal Auditing Report, pages 16-22*)

The audit indicates that cost containment goals were not met based on an example that was provided to the School Board in November 2014. The example shared with the School Board was based on raw payroll data of the 2013-14 school year and meant to illustrate the potential cost of outsourcing based on that payroll. The example included uncertainties related to projections of how many substitutes might qualify for benefits under the Affordable Health Care Act, the avoidance of worker's compensation claims as well as potential personnel and software savings. The audit indicated that the savings for FICA, software and worker's comp exceeded the projections. The audit also indicates that additional savings were realized through the avoidance of unemployment costs.

The projection from November 2014 included a cost avoidance of hiring an additional employee to manage the tracking of hours required by the Affordable Care Act. The analysis for the potential employee addition was based on the fact that many substitutes worked in other part-time capacities within the district such as tutors, homebound instructors, adult education

teachers and in 21st Century programs. The burden of tracking hours for multiple jobs of three hundred or more employees was felt to be such that it required additional manpower.

An additional position was added to Human Resources, a Human Resources Generalist, in August 2015 primarily to provide support due to increased demands as a result of VRS modernization (which pushed many tasks formerly done at the state level to the local level), recruitment of teachers and other staff, benefits administration, and Affordable Care Act tracking of non-benefited employees. All tasks associated with the oversight of substitutes were assigned to the Executive for Human Resources and the Licensure Specialist. The additional position was an independent need, separate and apart from the outsourcing of substitutes, and so should not be charged as a cost not avoided in the review.

With full credit for avoiding an additional position for the purpose of tracking substitute employee hours as required by the Affordable Care Act the % difference in the actual versus estimated savings for cost avoidance would be +4%.

Putting back the cost savings of eliminating the Subfinder Specialist would result in a net budget impact from outsourcing substitutes of \$119,623 (rather than the audit result of \$178,095). The costs avoided for positions that would have been needed internally to achieve the current fill rates reduce that budget impact even further.

As pointed out in the audit, the management fee is a flat percentage of payroll. The three variables that determine payroll costs of substitutes are: demand, fill rate and pay rate. In comparison to 2013-14, all three variables changed significantly in subsequent years. As discussed in observation 3, there was an increased demand for substitutes, particularly in May 2016 and 2017. There also was a 32% increase in the fill rate of Instructional Assistants (58% in 2014; 90% in 2017) and the pay rates of Instructional Assistants increased in January 2015 and the substitute teacher pay rate increased in August 2015.

The administration agrees with the audit in that the increase in pay rates would not have increased the Division's fixed costs if managed in-house. However, in-house management, with only one staff member solely dedicated to substitute management, did not produce the fill rates that optimize the instruction offered to students. To replicate the personnel resources provided locally by Source4Teachers to the Roanoke project would necessitate at least two full-time employees as well as budget for marketing, recruiting and incentives, in addition to the fixed costs already enumerated, in order to maintain the fill rates that have been produced. It would be very difficult to provide the additional administrative support that Source4Teachers is able to provide including the ability to respond to both substitutes and substitute requests with a manned phone line between the hours of 6 a.m. and 11:00 p.m.; additional support for long-term substitute requests, and a marketing team.

Objective 5: Billing Accuracy (*Municipal Auditing Report, pages 24-25*)

As indicated in the Audit Report, billing has been accurate and consistent. Human Resources staff members have reviewed bills and have found them to be accurate. Based on the auditor's recommendation, a sampling approach will be used in the future to verify billing.

Currently, RCPS pays bills monthly. Source4Teachers invoices weekly and invoices are received typically a week to 10 days after service is provided. As a result, the bill for the last week of every month is not received until the end of the first week of the next month and payment moves to the next month as well. Bills are due within 30 days and so typically there is one week of invoices that are paid at 37 to 40 days. To date, Source4Teachers has never indicated that there is an issue with the timeliness of payment by Roanoke City Public Schools.

Source4Teachers when asked if payment was an issue provided the following response from Joseph Fitzgerald, Regional Manager:

Overall Roanoke City is meeting our expectation of timely payments.

We appreciate prompt payment and understand that on occasion an invoice might take more time for us and/or Roanoke City to process. We continue to work on improving our invoicing processes and expect in the near future to be able to deliver invoices on Wednesdays.

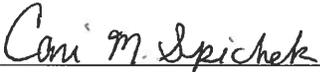
Donna Caldwell, Director for Accounting, Roanoke City Public Schools, indicates that RCPS has "never received any notifications of late payments or any concerns with our current method of paying the invoices."

End of Management Comments

ACKNOWLEDGEMENTS

We would like to thank the Human Resources Department, specifically Sandra Burks, Executive Director for Human Resources, for her assistance and cooperation throughout this audit. We would also like to thank Kayla Stump-Wright, Licensure and Substitutes Specialist and Thelma Marsh, Human Resources Associate for their time and input.

We would like to thank Source4Teachers personnel, specifically Joseph Fitzgerald, District Manager, Kyle Mestraud, Area Manager, and Daniela Hannah, Human Resource Support Specialist for their cooperation and assistance during the audit.


Cari M. Spichek, CIA
Senior Auditor

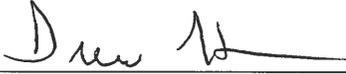

Drew Harmon, CPA, CIA
Municipal Auditor

Exhibit 1

Principal Satisfaction Survey Comments

1	When I have had concerns, the administration of S4T has been very helpful! The quality of service that the substitutes provide vary.
2	Difficult to find subs for half days.
3	I understand we cannot get the best candidates to do such a low-paying, inconsistent job. But my issue has been with the local Source4 liason/office. They are unresponsive to our requests. Twice this year, after multiple attempts through email, voicemails, etc., I have had to get our HR involved or call the corporate office.
4	It is a very big concern that subs cancel after accepting jobs and it leaves the job unfilled!
5	Any time that I have called and spoken with Source4, they have answered the call and addressed our concerns.
6	I appreciate that Source for Teachers will go the "extra mile" to find someone for us - particularly if it is on a Monday or a Friday.
7	Daniela Hannah does an exemplary and courteous job, even as her phone is undoubtedly ringing off the hook!
8	The Source4Teachers staff is extremely helpful when there are issues with substitutes. This year I have been concerned about the ability of substitutes to handle the students and we often have unfilled positions.
9	The quality of Instructional Assistant substitutes is our biggest concern. Many times we do not have one and some of the ones that are sent are not prepared for the environment.
10	The people that work for Source 4 teachers are effective (management). The only problem is that they do not have enough subs for jobs. VERY often we go without multiple SUBS in a variety of positions.
11	Substitutes drop jobs often at the last minute with no notification to the school from the sub or from Source for Teachers.

Exhibit 2

Principal Satisfaction Survey

Thank you for participating in our survey. Your feedback is important.

The School Board is interested in knowing if the Division is satisfied with Source4Teachers as the outsourced provider of school substitutes. The Roanoke City Municipal Auditor's office is conducting this survey on behalf of the School Board. Please complete this 5-minute survey as promptly as possible. The survey will close on Tuesday, May 16, 2017. 

Next

Powered by



See how easy it is to [create a survey](#).

Principal Satisfaction Survey

1. Please identify the grade level for which you are responsible. 

- K-5
- 6-12

Please rate your satisfaction with: 

2. The responsiveness of Source4Teachers staff when you contact them. 

- Very Satisfied
- Somewhat Satisfied
- Neither Satisfied nor Dissatisfied
- Somewhat Dissatisfied
- Very Dissatisfied

3. Source4Teachers resolution to your concerns. 

- Very Satisfied
- Somewhat Satisfied
- Neither Satisfied nor Dissatisfied
- Somewhat Dissatisfied
- Very Dissatisfied

4. The availability of substitutes provided by Source4Teachers to fill absences. 

- Very Satisfied
- Somewhat Satisfied
- Neither Satisfied nor Dissatisfied
- Somewhat Dissatisfied
- Very Dissatisfied

5. The effectiveness and professionalism of substitutes provided by Source4Teachers. 

- Very Satisfied
- Somewhat Satisfied
- Neither Satisfied nor Dissatisfied
- Somewhat Dissatisfied
- Very Dissatisfied

6. The accessibility and ease of use of the substitute absence management system (SAMS). 

- Very Satisfied
- Somewhat Satisfied
- Neither Satisfied nor Dissatisfied
- Somewhat Dissatisfied
- Very Dissatisfied

7. The overall quality of substitute services provided by Source4Teachers. 

- Very Satisfied
- Somewhat Satisfied
- Neither Satisfied nor Dissatisfied
- Somewhat Dissatisfied
- Very Dissatisfied

8. Please provide any other comments you may have regarding substitute services in the box below. 