

NASHOBA REGIONAL SCHOOL DISTRICT
REPORT OF FORENSIC SERVICES
DECEMBER 19, 2016

TABLE OF CONTENTS

	Page
INTRODUCTORY LETTER	1
THREE YEAR BUDGET TREND ANALYSIS	3
BUDGET OFFSETS	12
REVOLVING FUNDS	14
QUARTERLY REPORTS TO SCHOOL COMMITTEE	18
LEASES AND OTHER FINANCING AGREEMENTS	20
SPECIAL EDUCATION COSTS	26
STUDENT ACTIVITY FUNDS	28

School Committee
Nashoba Regional School District
50 Mechanic Street
Bolton, MA 01740

Additional Offices:
Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Dear School Committee Members:

We are pleased to submit our report of forensic services to the Nashoba Regional School District (District).

Our engagement was conducted in accordance with attestation standards for agreed-upon procedures engagements of the American Institute of Certified Public Accountants. Management of the Nashoba Regional School District was solely responsible for the sufficiency of the agreed-upon procedures. Therefore, we make no representations as to the sufficiency of the procedures as described in the preceding paragraph or for any other purpose. The agreed-upon procedures were not designed to constitute an audit of the financial statements of the Nashoba Regional School District in accordance with Generally Accepted Auditing Standards. Therefore, we do not express reasonable or limited assurance on the District's financial statements.

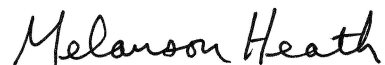
We applied the agreed-upon-procedures described below. Our procedures included, but not were limited to:

1. Prepared a trend analysis of the operating budget for fiscal years 2014, 2015 and 2016 to identify material changes in spending patterns and identified a baseline of costs.
2. Investigated the detail of certain accounts identified by the School Committee for further analysis such as Special Education costs and Facilities.
3. Revolving accounts were analyzed to determine trends in spending and the use of prior balances. Revolving accounts included but were not limited to Food Services, Extended Day and Enrichment accounts.
4. Student Activity Fund accounts were examined to determine the most recent audit findings and if the District is complying with the DESE Audit Guidelines for Student Activity Funds.

5. The Financial Operations Review completed by MASBO was reviewed in detail, and risk areas identified in the report were investigated to provide further insight.
6. Determined the adequacy of the (financial, database, statistical, and other modeling) software used, including its compatibility with regulatory standards and its ability to produce statutory reports and information required by the Department of Revenue, DESE, the Superintendent and School Committee;
7. Investigated whether the School District employs and enforces adequate controls to guard against unexpected expenses and whether the system should make some provision for handling system and vendor errors.
8. Examined whether the school system has adequate mechanisms in place for projecting budget needs when budgets are developed and, later, to allow the Superintendent and School Committee to assess expenses, encumbrances, and projected expenses against budgeted amounts on a timely, continuing basis.

Our responsibility is limited to the period covered by our procedures and does not extend to matters that might arise during any later periods for which we are not engaged.

The results of our procedures are contained in the following pages.



Melanson Heath

THREE YEAR BUDGET TREND ANALYSIS

We have prepared a three year trend analysis for the general operating budget. The District votes an annual budget net of offset accounts. During the year, transfers are made which are voted by the School Committee or made by Administration if they are within a group of control accounts as identified in the budget documents.

The number and amount of budget transfers, both within and outside the control accounts, is numerous and large. Administration also makes a year-end budget transfer that adjusts most of the budget line items to less than \$1.

The final budget to actual report then looks like the District spent exactly what was appropriated for most of the budget lines when, in fact, there are large variances between the amounts originally voted and what was actually spent.

This model is used by other districts, but is not one that we have supported over the years. Comparison of the actual to the original appropriation identifies areas where the budget is materially different from what was anticipated. The model does force the District to identify areas where there are deficit problems and locate other accounts where a surplus can be used to cover the deficit, but that process needs to happen when deficits are identified, not at year end.

The District's policy for budget transfers is in Budget Transfer Authority File: DBJ.

"In keeping with the need for periodic reconciliation of the school department's budget, the Regional School District Committee will consider requests for transfers of funds as they are recommended by the Superintendent."

The policy does not define parameters for budget adjustments such as the authorization for transfers within control accounts which are being made without School Committee authorization.

We have prepared two trend analyses for the general operating budget: one based on the final budget as adjusted by numerous transfers, and the other by comparison to the original voted budget. It can be seen from the analysis that certain accounts are in deficit situations almost every year when actual is compared to the original budget. This is significant in that the budget worksheets used in preparing the proposed budget for the subsequent year provides the prior three years of actual history, the current year's voted budget and the next year's proposed budget. The budget document does not

provide a projection of the current year's actual expenditures compared to the voted budget to identify problem areas which need to be addressed in the proposed budget.

In fiscal 2014, Administration submitted a transfer request to the School Committee on June 17, 2014. The request transferred over \$600,000 between various accounts. By that date, all spending commitments had already taken place, and there is no reason to make budget transfers other than to cover accounts that had large surplus and deficit balances.

On June 24, 2014, the Administration made numerous year-end transfers to zero out various accounts and then, on June 30, 2014, made another \$650,000 of transfers within control accounts, which serves no purpose other than to cover deficit balances with accounts that have surplus balances.

In fiscal 2015, a large transfer request was sent to the School Committee on January 28th for the purpose of covering the costs of the new collective bargaining agreement. The transfers moved over \$1 million dollars between accounts. One notable transfer of \$300,000 came out of SPED Out of District Tuition account, even though there was a projection that the account was going to go into deficit by \$339,790 as a result of the transfer. That deficit was covered by another transfer in April 2015 from surplus balances in the Insurance accounts.

There was another \$395,000 transfer between accounts submitted to the School Committee on June 18th, to cover year-end surplus and deficit balances, and another \$350,000 of adjustments near the end of June within control accounts for the same purpose.

In fiscal 2016, \$419,000 of budget adjustments went to the School Committee on June 23rd for the purpose of covering deficit and surplus balances at year end. There were further adjustments within control accounts and to zero out many accounts.

In our opinion, making budget adjustments at year end to cover deficit and surplus balances and making an entry to bring balances to less than \$1 does not serve the District in an operational way. As indicated above, making a transfer from a surplus account to an anticipated deficit when the deficit becomes known, or re-programming surplus balances when the surplus is known, makes operational sense. Getting the School Committee to authorize these transfers long after the event has occurred has no value.

We have analyzed the three year trend spreadsheets, both voted and final adjusted versions, and note trends that show up when comparing actual to the voted budget that would not be noted in reviewing the actual to adjusted final budget.

Surplus balances in the Insurance and Benefits accounts are more pronounced comparing actual to the original budgets rather than the adjusted final budgets.

Fiscal 2014 Surplus from Adjusted Budget	\$390,045
Fiscal 2014 Surplus from Voted Budget	\$540,545
Fiscal 2015 Surplus from Adjusted Budget	\$ 39,108
Fiscal 2015 Surplus from Voted Budget	\$449,108
Fiscal 2016 Surplus from Adjusted Budget	\$240,044
Fiscal 2016 Surplus from Voted Budget	\$240,044

District Administration Salaries were over-expended each year comparing to the voted budget, but not comparing to the adjusted budget.

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Deficit from Voted Budget	\$(9,092)
Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$(12,512)
Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$(83,499)

The same is true for the Central Office Staff.

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Deficit from Voted Budget	\$ (24,076)
Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$ (9,880)
Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$ (12,992)

Custodial Overtime was over-expended when compared to the voted budget, but not when compared to the final adjusted budget.

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Deficit from Voted Budget	\$ (36,957)
Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$ (55,967)
Fiscal 2016 Surplus from Adjusted Budget	\$ 28,840
Fiscal 2016 Deficit from Voted Budget	\$ (80,200)

Maintenance of Grounds including snow removal and supplies has been consistently over-expended.

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Deficit from Voted Budget	\$ (39,887)
Fiscal 2015 Surplus from Adjusted Budget	\$ 123
Fiscal 2015 Deficit from Voted Budget	\$ (190,310)
Fiscal 2016 Surplus from Adjusted Budget	\$ 15,479
Fiscal 2016 Surplus from Voted Budget	\$ 6,179

Facilities Department Salaries have been consistently over-expended compared to the voted budget.

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Deficit from Voted Budget	\$ (75,993)
Fiscal 2015 Surplus from Adjusted Budget	\$ 47
Fiscal 2015 Deficit from Voted Budget	\$ (8,952)
Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$ (16,034)

Inspections and DEP Compliance is Over-expended compared to the voted budget.

Fiscal 2014 Surplus from Adjusted Budget	\$ 2,580
Fiscal 2014 Deficit from Voted Budget	\$ (4,613)
Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$ (30,738)
Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$ (16,396)

Substitute Teachers have been substantially over-expended in 2014 and 2015.

Fiscal 2014 Surplus from Adjusted Budget	\$ 2,580
Fiscal 2014 Deficit from Voted Budget	\$ (175,339)
Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$ (205,925)
Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$ (32,962)

District Mentor Program

Fiscal 2014 Deficit from Adjusted Budget	\$ (29,880)
Fiscal 2014 Deficit from Voted Budget	\$ (52,616)
Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$ (12,445)
Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$ (19,769)

Teaching & Learning Salaries

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Surplus from Voted Budget	\$ 8,066

Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$ (45,296)
Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$ (72,356)

District Textbook Adoption

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Deficit from Voted Budget	\$ (43,076)
Fiscal 2015 Surplus from Adjusted Budget	\$ 1,478
Fiscal 2015 Surplus from Voted Budget	\$ 26,478
Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$ (42,656)

Note: this account is one that appears to be used to purchase materials at year end if there is a surplus. For example, in fiscal 2014 the original budget was \$50,950, but was increased on June 30, 2014 by \$43,077 as a transfer within control accounts to cover purchases and encumbrances late in the year.

In fiscal 2015, the budget was increased to \$160,000 and was not fully expended.

In fiscal 2016, the original budget was \$69,000, but was increased by \$42,657 on June 29, 2015 by a transfer within control accounts. The new budget balance became \$111,657. There had been no expenditures against the account during the year, and \$111,657 was encumbered at year end on purchase orders dated June 14th and June 30th.

SPED TRANSPORTATION SURPLUS BALANCES

SPED Transportation has been over-budgeted every year. Money has been transferred from this budget to cover deficits in other accounts.

Fiscal 2014 Surplus from Adjusted Budget	\$ 5,910
Fiscal 2014 Surplus from Voted Budget	\$ 164,030
Fiscal 2015 Surplus from Adjusted Budget	\$ 10,572
Fiscal 2015 Surplus from Voted Budget	\$ 176,572

Fiscal 2016 Surplus from Adjusted Budget	\$ 15,153
Fiscal 2016 Surplus from Voted Budget	\$ 215,153

OUT-OF-DISTRICT TUITION DEFICITS

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Deficit from Voted Budget	\$ (96,293)

Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$ (90,000)

Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$ (200,000)

COMPUTER HARDWARE OVER-EXPENDED

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Deficit from Voted Budget	\$ (146,620)

Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$ (7,692)

Fiscal 2016 Deficit from Adjusted Budget	\$ 0
Fiscal 2016 Deficit from Voted Budget	\$ 0

Computer Hardware is another account that was used to purchase items at year end if there was an anticipated surplus in other District accounts. Budget was transferred at year end to this account and spent or encumbered.

In fiscal 2016, \$152,609 was encumbered at year end, even though there was a deficit in the account prior to the encumbrance. Subsequently, the encumbrances were eliminated and the account was adjusted to zero.

TELEPHONE DEFICITS

Fiscal 2014 Deficit from Adjusted Budget	\$ 0
Fiscal 2014 Deficit from Voted Budget	\$ (24,697)

Fiscal 2015 Deficit from Adjusted Budget	\$ 0
Fiscal 2015 Deficit from Voted Budget	\$ (15,941)

Fiscal 2016 Deficit from Adjusted Budget	\$	0
Fiscal 2016 Deficit from Voted Budget	\$	(74,540)

There was no budget for telephone in fiscal 2016.

HIGH SCHOOL LEADERSHIP BUILDING DEFICITS

Fiscal 2014 Surplus from Adjusted Budget	\$	4,455
Fiscal 2014 Deficit from Voted Budget	\$	(11,633)
Fiscal 2015 Surplus from Adjusted Budget	\$	650
Fiscal 2015 Deficit from Voted Budget	\$	(25,710)
Fiscal 2016 Surplus from Adjusted Budget	\$	2,990
Fiscal 2016 Deficit from Voted Budget	\$	(22,584)

BURBANK SCHOOL LEADERSHIP BUILDING DEFICITS

Fiscal 2014 Surplus from Adjusted Budget	\$	909
Fiscal 2014 Deficit from Voted Budget	\$	(2,939)
Fiscal 2015 Surplus from Adjusted Budget	\$	570
Fiscal 2015 Deficit from Voted Budget	\$	(4,127)
Fiscal 2016 Surplus from Adjusted Budget	\$	1,050
Fiscal 2016 Deficit from Voted Budget	\$	(14,023)

CENTER SCHOOL LEADERSHIP BUILDING DEFICITS

Fiscal 2014 Surplus from Adjusted Budget	\$	76
Fiscal 2014 Deficit from Voted Budget	\$	(2,914)
Fiscal 2015 Surplus from Adjusted Budget	\$	90
Fiscal 2015 Deficit from Voted Budget	\$	(6,169)
Fiscal 2016 Deficit from Adjusted Budget	\$	(338)
Fiscal 2016 Deficit from Voted Budget	\$	(17,103)

CONCLUSION

With the exception of the January, 2015 transfers to cover the impact of contract negotiations, all School Committee transfers and most transfers within control accounts are made at the end of the school year, and only serve to cover deficits and make the final report look like budget performance was better than it actually was. The problem with making those transfers is that it covers up patterns where the budget is underfunded in some areas and overfunded in others. That information is helpful in preparing future budgets.

The District's policy over budget transfers does not distinguish between those transfers requiring School Committee approval and transfers within control accounts that do not require School Committee approval.

Recommendations

1. The School Committee should review their policy over budget transfers and either amend the policy to conform with current practices or require School Administration to conform to the current policy and submit all transfer requests to the School Committee.
2. Budget transfers should only be made when a surplus in an account is identified and the School Administration, with consent of the School Committee, desires to re-program that money for other purposes; or when a deficit in an account is projected and School Administration desires, with School Committee consent, to identify where the funding is coming from to cover the deficit. In both cases, the transfers should be submitted at the time the information is known rather than at the end of the year when spending has already taken place.

BUDGET OFFSETS

The District prepares the annual operating budget including offset accounts. Offsets are various grants and revolving fund accounts which pay for costs included in the general operating budget. The District nets the offsets against budget accounts for entry into the financial management system.

The District also transfers money from the offset accounts, most often over a ten month period, to reflect costs covered by the grant and revolving accounts. In some cases, the transfers are equal to the budgeted amount, and in other cases the amount transferred covers actual amounts spent in the operating accounts related to the offsets. All financial reports from the system report budget and actual net of the offsets.

We have prepared activity schedules of the offsets voted in the budget to amounts transferred from the grant or revolving funds to the operating costs over the three year period. Those schedules are attached to this report.

The schedules show that there are inconsistencies between the offsets budgeted and the actual offsets. There are times that various grants were not budgeted as an offset, but were used to offset the operating accounts; and there were times that grants were budgeted as an offset, but charges were made directly to the grants and not through offsets.

There are times that more was transferred from various offset accounts than was anticipated in the budget. In fiscal 2015, additional emergency aid was received in circuit breaker. That aid was transferred to the Out-Of-District tuition account to offset unanticipated expenditures in that year. Also in fiscal 2015, an additional amount was transferred from the Custodial Revolving Fund to cover a deficit in Electricity which had not been covered by year-end transfers.

The schedules note that there has been money transferred from the Extended Day Revolving Fund each year. That transfer has been budgeted and accounted for as revenue used to reduce assessments rather than as an expense offset. There are also expenditures out of the Extended Day Revolving Fund for salaries, supplies, and sometimes capital purchases in addition to the transfer to the general revenue account. The annual amount budgeted as a transfer represents indirect costs paid out of the operating accounts such as the cost of space and employee benefits. There should be a calculation as to what indirect costs are being covered by the annual transfer so that there can be no accusation that the Extended Day Revolving Fund is inappropriately subsidizing the operating budget.

CONCLUSION

Offset accounts are used in some School Districts as a way of looking at all costs that it takes to run the District. In the case of Nashoba, some of the grant and revolving funds are offsets, while others are not. The District nets the offsets against the appropriations in the financial management system so that reports of budget and actual expenditures show the net amount.

In our opinion, the use of offsets is confusing, not transparent in the financial reports and time consuming for the Business Office staff to administer, creating the need to make numerous adjusting entries each month to transfer the costs from the operating accounts to the grant and revolving funds. Some of the transfers are made only once per year, resulting in interim quarterly reports that are inaccurate because there are costs that will be reduced before the end of the year.

See also the next section on Revolving Funds.

Recommendations

1. We recommend the District discontinue using offset accounts against the general operating budget. The operating budget should be developed without the associated grant and revolving fund costs included. The School Committee should vote to expend from the general operating budget, as well as the grant and revolving accounts as separate votes.
2. Administration should prepare an indirect cost schedule to support costs budgeted as revenue from the Extended Day Revolving Fund.

REVOLVING FUNDS

The District utilizes various revolving funds as set forth in Massachusetts General Laws. A three year trend schedule has been provided as a separate document. Each revolving fund is authorized individually with Massachusetts General Laws. Certain funds have restrictions on how the money in the fund may be used.

The previous section details the use of offset accounts by the District. The use of offsets does not change the purpose and requirements as to the receipt and disbursement of revolving funds. The only difference is how the transactions are processed and where they end up being reported. The revolving fund schedules distinguish amounts spent directly out of the funds and amounts transferred to the general operating budget as an offset.

The following describes the sources and uses of the major revolving fund accounts.

The **Extended Day** account was discussed in the previous section. That account records the majority of expenses for the operations of the extended day program. There is an annual transfer to the operating budget which is used to reduce member assessments and represents a reimbursement to the operating account for facility and other indirect costs of the program.

The **Pre-School** revolving fund is funded through parent fees. Almost all expenditures are paid out of the operating budget and reimbursed through offset accounts. The offset is SPED Teacher's Salaries. The account has grown from \$269,034.87 at the beginning of fiscal 2014 to \$377,303.41 at the end of fiscal 2016.

The revolving fund reported as **Building Use** is named differently in various places. The Offset Revenue Budget Document places the offsets in an account Athletic Field Fees. The accounting records name the account as Custodial Revolving and the reports name the account Building Use.

Revenue is generated through fees for use of the buildings including charges to cover custodial overtime. In fiscal 2014, the Athletic Field Bond was paid directly out of the account. In 2015 and 2016, the account was used to offset costs in the general operating budget. In 2015, the account was used to pay the Athletic Bond of \$35,500, and at the end of the year the account was used to pay a deficit in the electricity account of \$37,679.25. In 2016, \$40,000 was used to pay the Athletic Field Bond.

The Building Use revolving fund has grown from \$130,871.96 at the beginning of fiscal 2014 to \$256,275.76 at the end of fiscal 2016.

The **Third Party Tuition** revolving fund receives tuition reimbursement from non-member Towns for students placed in District programs. In fiscal 2014, \$25,000 was offset against the SPED Tuition account and \$100,000 was offset to the SPED Tuition account. The remaining amount spent out of the account does not appear appropriate for the account and included expenditures such as Robotics Team Transportation, a Peaceful Playgrounds Recess Package, a \$1,200 payroll stipend and an amount classified as Title I expenditures.

In fiscal 2015, \$25,000 was offset to SPED Tuitions, \$100,000 offset to SPED Transportation, and payroll stipends were paid for \$1,200 and \$1,500. In fiscal 2016, \$25,000 was offset to SPED Tuitions, \$100,000 offset to SPED Transportation, and payroll stipends were paid of \$2,275, \$1,200 and \$1,097.25.

The balance in the fund has increased from \$115,947.58 at the beginning of fiscal 2014 to \$157,777.37 at the end of fiscal 2016.

The **Guidance** revolving fund accounts for fees collected and expenses paid related to the PSAT and AP exams. There is a small amount of payroll charged to the account.

The **NRSD Parking** fund is for parking fees collected. In fiscal 2015, there was little spent out of the fund and no offsets. In fiscal 2015, \$15,000 was offset against ground supplies and in fiscal 2016, \$30,000 was offset against ground supplies. Minimal amounts have been spent directly out of the fund in fiscal 2015 and 2016. As a result of the offsets, the balance in the fund has stayed relatively consistent.

The **Full Day Kindergarten** account collects receipts which are used to offset the costs of teacher's salaries in numerous accounts throughout the District. The account has been somewhat depleted due to the use of \$500,000 to offset salaries in fiscal 2106. A small amount of Kindergarten supplies have been paid directly out of the account.

The **Circuit Breaker** revolving fund receives reimbursements from the Commonwealth of Massachusetts for qualified SPED costs reported each year. The current year Circuit Breaker award is based on prior year excessive SPED expenditures by the District. Excessive SPED costs are defined as four (4) times the state average foundation budget per pupil calculated under the Chapter 70 program. The state pays 75% of the costs above that calculation. Circuit Breaker awards are typically used by School Districts to defray the cost of SPED Tuitions. Each year, the District has used the prior

year's balance in the Circuit Breaker revolving fund as a budgeted offset in the subsequent year. All Circuit Breaker funds have been used to offset SPED Tuitions. In fiscal 2015, the District applied for and received additional Emergency Reimbursements due to excessive Tuition costs (25% higher than the previous year) in that year. \$252,504 was received, deposited into the Circuit Breaker revolving fund, and transferred from the Circuit Breaker fund to the operating account line for SPED Tuitions. The total offset that year is in excess of the original amount budgeted due to this additional funding. The balance at the end of fiscal 2016 is \$884,500, which is the amount received in fiscal 2016. The amount was applied as an offset in the fiscal 2017 budget.

The **School Choice** revolving account is funded through school choice tuitions coming into the District. The balance at the beginning of 2014 was \$1,353,239.11, and the District budgeted \$1,300,000 as an offset in fiscal 2015. The District did not receive sufficient revenues in fiscal 2014 and 2015 to rebuild the account from the \$1,300,000 used as an offset each year. In fiscal 2016, \$1,100,000 was used as an offset, leaving only \$219,347.11 in the account at the end of fiscal 2016. The fiscal 2017 budget documents indicate that \$700,000 was voted as an offset. That amount is about what the District received in fiscal 2016, though the receipts have been declining every year.

In fiscal 2014 and 2015, the offset was applied to Health Insurance for \$1,000,000 and Teacher's Salaries for the other \$300,000. In fiscal 2016, \$190,000 was applied against Teacher's Salaries and the remaining \$910,000 was applied to Health Insurance.

The **Athletic Revolving** Fund is made up of several accounts based on the revenue received. Gate receipts go in the High School Athletic Revolving Fund and user fees are collected at the High School, Hale, Burbank and Sawyer. There are also a few minor funds. A three year trend schedule has been prepared as a separate document.

The District uses offsets from the revolving funds to cover certain athletic costs in the general operating budget including coaches' salaries, game officials, transportation and costs related to ice hockey. It is noted that the revolving accounts transfer an amount sufficient to cover deficits in those accounts, and not the amount budgeted as an offset. Due to that practice, the fund has grown from \$211,547.86 at the beginning of fiscal 2014 to \$369,559.58 by the end of fiscal 2016.

CONCLUSION

We did not see documentation that Administration provided reports of revolving fund activity in the quarterly reports submitted to the School Committee or at the end of the year.

Revolving and grant funds are a significant part of the District's spending plans, and balances in the accounts at the end of the year can materially impact the development of the subsequent year's budget. We discussed the use of offset accounts in the section above. Spending revolving funds through offset transfers results in loss of transparency over how the funds are being used.

Recommendations

1. Discontinue the use of offsets as discussed above.
2. A separate budget should be submitted to the School Committee for the use of grants and revolving funds.
3. Reports of activity in revolving funds should be provided to the School Committee not less than quarterly.
4. Expenditures out of each revolving fund should be restricted for the purpose the fund is intended for and in compliance with Massachusetts General Laws and DESE guidance.

QUARTERLY REPORTS TO SCHOOL COMMITTEE

We found that the Administration provided quarterly financial reports to the School Committee for the first, second and third quarters of each fiscal year. We did not see where final reports were presented and discussed at the end of each fiscal year.

The quarterly reports are prepared on a District spreadsheet based on information obtained from the District's financial management system.

The quarterly reports include the Budget, before offsets, adjustments to the budget including offsets, adjusted budget, year-to-date expenditures, encumbrances, balance and percent remaining.

The adjustments column combines offsets adjustments with other adjustments, whether approved by the School Committee or made within control accounts without School Committee vote.

There are other factors which make the quarterly reports confusing. As previously discussed, transfers for actual offsets are not always made consistently throughout the year. If the budget is adjusted by the offset but the actual is not, the remaining balance is distorted.

The District encumbers payroll in the financial management system which is included when the reports are produced from the system, but Administration does not report the payroll encumbrances on the quarterly financial reports. Payroll is the majority of District expenditures, so reporting the encumbrances provides a more complete picture of the financial status of the District. There are also certain payroll accounts and non-payroll accounts which are not fully encumbered in the financial management system. Administration can calculate or project the remaining expenditures in those accounts and include that information in the quarterly financial reports to make them more complete.

The quarterly financial reports do not include grant and revolving fund activity. Activity in these accounts materially impacts the overall health of the District's finances.

CONCLUSION

The quarterly reports, together with other recommendations in this report, can be significantly improved to keep the School Committee better informed of the financial status during the year.

Recommendations

1. Include payroll encumbrances in the quarterly reports.
2. Include a projected column to estimate costs needed to complete the year.
3. Report the budget net of offsets, or eliminate offsets, so budget transfers can be better tracked.
4. Include activity schedules for the grant and revolving funds in the quarterly reports.
5. Present final year end reports at a School Committee meeting and discuss the results.

LEASES AND OTHER FINANCING AGREEMENTS

The District has made extensive use of leases and other financing loans or agreements for the purchase of computer hardware and software, vehicles and maintenance equipment. Many of these leases and financing agreements were not taken to the School Committee for approval. Some of the loans and capital leases were not recorded in the District's accounting records and, accordingly, were not included in the District's audited financial statements.

School Committee policies are not clear on the authority of the Superintendent or other administrative employees to sign contracts and agreements on behalf of the School District including leases, loans and financing agreements. It is also not clear what contracts need School Committee authorization prior to execution by District Administration.

As described below, lease and loan documents were signed by the Superintendent, the Assistant Superintendent or both. The Superintendent referred to is the Superintendent during fiscal 2014 and 2015 and July 1, 2015 through December 31, 2015. We saw no evidence that lease or loan documents were signed by the Interim Superintendent during the period January 1, 2016 through June 30, 2016. The Assistant Superintendent referred to was the Assistant Superintendent during all of fiscal 2014, 2015 and 2016.

Massachusetts General Laws establish the authority of School Districts to enter into lease agreements not exceeding five years. Massachusetts General Laws do not distinguish between operating leases and capital leases. An operating lease provides for the use of property which is owned by the lessor and will be retained by the lessor at completion of the lease. A capital lease is the equivalent of a purchase of the equipment through a financing agreement. At the end of the lease, the lessee retains possession of the equipment at no additional cost or at a nominal cost.

Massachusetts General Laws also provide the procedures for the Districts to enter into loans or notes which require authorization by the member Towns.

The governing principles over the accounting of capital leases and assets purchased through notes or financing agreements are guided by Generally Accepted Accounting Principles for Governmental Entities. Operating leases and capital leases should be treated differently in the financial statements. Whether an operating or a capital lease, accounting principles require full disclosure of the amounts due in future years under the agreement.

In the case of a capital lease, the equipment should be added to the District's fixed asset list and the lease amount, including interest, is booked as a liability in the Government – Wide financial statements. The lease balance is then amortized over the lease period and the interest portion is included as expended. The lease payments are also disclosed in the financial statement footnotes as if it were a debt instrument.

Lease payments on operating leases are charged to the account where they are appropriated each year. The future lease payments are disclosed in the financial statement footnotes.

Capital leases and loans that were not included on the District's books or reported in the audited financial statements amount to the following:

Fiscal 2013	\$ 86,816
Fiscal 2014	\$101,943
Fiscal 2015	\$120,067

The following provides information on the largest and most recent leases, financing agreements and notes executed by the District in the three years covered by this engagement.

Hewlett Packard Annual Lease

The District has used the Hewlett Packard Financial Services Company to acquire computer equipment going back to 2004. The District executes a lease agreement with Hewlett Packard Financial Services for a three year period. Hewlett Packard Financial Services remits the lease proceeds to Deutsche Bank, where it is placed into an escrow account. The District purchases computer equipment from various vendors and submits the invoices to Deutsche Bank for payment. The transaction is "off books" in that no entry is made into the accounting system to reflect the financing, and the purchase of the equipment does not get recorded in the books or authorized through the warrant process. Annual lease payments have been budgeted and paid through the Technology Computer Hardware account.

The leases have been executed for the following amounts:

	<u>Principal</u>	<u>Interest</u>
Fiscal 2014	\$231,014	\$ 8,896
Fiscal 2015	\$231,650	\$ 8,350
Fiscal 2016	\$319,044	\$10,956

We were not able to find evidence that any of the Hewlett Packard leases were presented and voted on by the School Committee. The lease and escrow documents obtained by us were signed by either the Superintendent, the Assistant Superintendent, or both.

The lease and escrow documents were made available to the District's auditors. The leases were treated as operating leases in the financial statements because the equipment purchased did not meet the required cost threshold individually, as most items purchased were less than \$1,000. The future value of the lease payments was disclosed in the footnotes to the financial statements as operating leases.

We have included a list of the equipment purchased under each of the leases for the three years 2014-2016 as an attachment to the report.

Clinton Savings Bank Notes

Mowers

The District executed a promissory note with Clinton Savings Bank on December 7, 2015 in the amount of \$18,969.95 for three years at 4.25%, \$1,288.69 of interest for total payments of \$20,258.64. The proceeds of the note were used for two Lazer X KOH mowers and attachments. The District issued a Business Loan Agreement and a Commercial Security Agreement as part of the loan package. All documents were signed by the Assistant Superintendent.

The School Committee approved the financing agreement on December 2, 2015. We found no evidence that the loan was disclosed to or authorized by the member Towns.

Loan documents indicate that the loan proceeds were deposited into the District's bank account, but we were unable to find evidence that it was deposited. We believe the bank paid the vendor directly.

The transaction is "off books" in that the proceeds were not recorded in the District's accounting records, and the disbursement for the purchase of the equipment is not recorded and was not put on a warrant for approval.

At the date of this report, the 2016 audit had not been completed, so there is no information as to how the note is going to be accounted for in the District's financial statements.

2013 Chevy Silverado

The District issued a Loan and Security Agreement with Clinton Savings Bank on September 10, 2013 in the amount of \$38,485, for five years at 1.99%, \$2,007.80 interest for total payments of \$40,492.80 for a 2013 Chevy Silverado. The note and security agreements were signed by the Assistant Superintendent, based on a certificate of authority signed by the Superintendent that the Assistant Superintendent had authority to sign the notes.

We found no evidence that this borrowing was submitted to either the School Committee or the member Towns.

The transaction is “off books” in that the proceeds were not recorded, the disbursement for the purchase of the equipment is not recorded and was not put on a warrant for approval.

The loan commitment was not recorded or disclosed in the District’s fiscal 2014 or fiscal 2015 audited financial statements.

In our opinion, note liability should have been recorded in the financial statements and properly disclosed in the footnotes as a debt instrument.

Wells Fargo Lease Purchase Agreement

In January, 2015, the District executed a lease purchase agreement with Wells Fargo in the amount of \$46,306, 3.14%, 2,909.84 interest payable over 48 months for a total of \$49,215.84. The lease was for a 2014 Chevy Starcraft Van to be purchased at the end of the lease term for \$1.

The School Committee authorized the lease purchase at their January 28, 2015 meeting. All lease documents were signed by the Assistant Superintendent and/or the Superintendent. There was also an Attorney Certificate indicating the proper District authorizations had been obtained.

The lease commitment was not recorded or disclosed in the District’s fiscal 2015 audited financial statements.

In our opinion, the transaction should have been recorded in the financial statements as a capital lease obligation and properly disclosed in the footnotes as a debt instrument.

John Deere Lease Purchase Agreement

In January of 2013, a Lease Purchase Agreement was executed with John Deere Financial in the amount of \$86,968, 4.3%, \$9,493.44 interest for a total of \$96,462.40 payable over five years for the purchase of a Utility tractor and attachments.

We did not see evidence that the School Committee authorized the execution of this lease. All lease documents were signed by the Assistant Superintendent. There was also an Attorney Certification indicating that the proper District authorizations had been obtained.

The loan commitment was not recorded or disclosed in the District's fiscal 2013 or subsequent audited financial statements.

In our opinion, the transaction should have been recorded in the financial statements as a capital lease obligation and properly disclosed in the footnotes as a debt instrument.

Leasing Innovations Lease Purchase Agreement

The District negotiated a five year lease purchase agreement in fiscal 2012 with Leasing Innovations in the amount of \$41,928 in principal and \$9,942 in interest for a total of \$51,870. The lease is for the purchase and use of financial management software for payroll and Human Services and related software and services.

All lease documents were signed by the Superintendent and/or the Assistant Superintendent. There was also an Attorney Certification indicating that the proper District authorizations had been obtained.

The lease appears to be properly disclosed in the fiscal 2012, 2013 and 2014 and 2015 audited financial statements as an operating lease commitment through fiscal 2017.

CONCLUSION

In our opinion, all loan and lease agreements should be reviewed and authorized by the School Committee. The District should submit any notes or loan agreements to the Member Towns for the appropriate action.

Any loan or note proceeds should be deposited into the District bank accounts and payment for the equipment should be disbursed through the warrant process.

With the exception of the Hewlett Packard and Leasing Innovations leases, all other leases are capital leases and should have been recorded on both the District's books and in the audited financial statements. All capital leases and the Hewlett Packard lease are, in substance, financing agreements and not leases. In all cases, the items were purchased by the District and not owned by the leasing company.

Recommendations

1. The School Committee should amend policies to clarify which contracts and agreements require School Committee approval and who within the administrative offices is authorized to sign and execute contracts and agreements.
2. All capital purchases funded through a financing agreement, whether termed a lease or not, should be recorded in the District's books when the transaction is executed. The purchase of the equipment should be processed through a warrant.
3. Any purchase of assets through a loan or note with a lending institution should be sent to the Member Towns for the appropriate authorization before being executed.

SPECIAL EDUCATION COSTS

Special education costs are often unpredictable and can have substantial impacts on the District's operating budget. The District has seen special education costs escalate in recent years consistent with patterns seen at many School Districts in Massachusetts.

In fiscal 2014, the District had a surplus in special education accounts of \$182,798.66 when compared to the original budget, net of offsets. The budget was increased by \$632,983 in fiscal 2015. Despite the increase, the District suffered a deficit of \$69,112 for the year when compared to the original budget. The District applied for and received emergency funding to cover part of the additional costs. Without that funding, the District would have been in further deficit by \$252,504.

The budget was increased again in fiscal 2016 by \$1,042,291. The year ended with a surplus of \$175,153 compared to the original budget.

The budget increases have been adequate, for the most part. We found that special education transportation has come in consistently under budget, while Out-of-District Tuition has been consistently over budget. The SPED Tuition costs have also been offset substantially by offsets. The following is a summary of costs and offsets over the last three years:

	Fiscal 2014	Fiscal 2015	Fiscal 2016
Out-of-District Placements	\$1,125,167	\$1,714,429	\$2,086,610
Collaboratives	\$234,279	\$340,446	\$372,484
Less Offsets	(\$632,381)	(\$759,335)	(\$610,921)
Total	\$727,065	\$1,295,540	\$1,848,173

Out-of-District Placements	16	23.6	24
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Cost have increased due to an increase in the number of placements and because the cost of many of the placements have increased.

The special education budget increased in fiscal 2017 by \$296,153. The 2017 budget reflects a decrease in the transportation line item and a large increase in the Tuitions line item. If the District is not burdened with a new and costly placement, the budget should be adequate.

The District also pre-paid tuition to outside placements and collaboratives. The amounts pre-paid at the end of each fiscal year are:

Fiscal 2014	\$398,515.84
Fiscal 2015	\$247,637.72
Fiscal 2016	\$304,294.26

Pre-payment of Special Education tuitions is customary in Massachusetts as a way of mitigating unexpected costs.

CONCLUSION

The District has voted large increases in the special education budgets over the last several years. That has resulted in covering the cost increases without resulting in large deficits suffered by other Districts during this time period.

Recommendations

1. The other recommendations made in this report will assist in better monitoring the costs during the fiscal year.
2. The Special Education office should periodically provide a schedule to the District Administration listing the number and location of the placements to assist in the budget monitoring and development process.

STUDENT ACTIVITY FUNDS

The District maintains Student Activity Accounts at several schools in accordance with Massachusetts General Laws and DESE Guidelines.

Depository accounts are set up in the Central Office under control of the District Treasurer. All receipts are deposited into the Treasurer's account. Each school has a checking account maintained by the Principal. The checking accounts are replenished periodically when needed by submitting paid bills to the Central Office and inclusion on a warrant. Bills are paid out of the Principal's checking accounts.

The DESE Audit Guidelines require each student activity account with activity greater than \$25,000 to be audited annually and once every three years by an outside independent public accountant.

The student activity accounts were audited by Powers and Sullivan for fiscal 2015. The report also included observation of practices which were improved in fiscal 2016. These improvements included:

1. The School Committee is now approving all new student activities. The audit recommended the School Committee annually approve existing activity accounts as well.
2. The use of pre-numbered receipts and tickets has been implemented in 2016, but not previously.

There were additional findings that had not yet been implemented that are recommended by the auditors to be in compliance with DESE Audit Guidelines.

1. School Committee policies need to address reimbursements to personal credit cards due to "reward benefits" to the cardholder.
2. District policy indicates inactive accounts should be closed after three years. There are inactive accounts that have not been closed.
3. School Committee policies need to be upgraded to meet the recommendations of the DESE Audit Guidelines.

CONCLUSION

For the most part, the District is complying with the DESE Audit Guidelines.

Recommendations

1. Implement the recommendations made in the fiscal 2015 student activity fund audit.
2. Schedule audits, internally or externally, each year as required by the Audit Guidelines. Student activity accounts that are less than \$25,000 in activity do not need to be audited every year, but can be rotated over a three year cycle.