



The Commonwealth of Massachusetts  
Office of the Inspector General

GREGORY W. SULLIVAN  
INSPECTOR GENERAL

JOHN W. MCCORMACK  
STATE OFFICE BUILDING  
ONE ASHBURTON PLACE  
ROOM 1311  
BOSTON, MA 02108  
TEL: (617) 727-9140  
FAX: (617) 723-2334

February 27, 2012

Judith Scannell  
Superintendent  
Methuen Public Schools  
90 Hampshire Street  
Methuen, MA 01844

Dear Superintendent Scannell:

As you know, the Massachusetts Office of the Inspector General (OIG) inquired into the use of the Methuen Public Schools' (MPS) Fiscal Years (FY) 2009, 2010, and 2011 State Fiscal Stabilization Fund (SFSF) Grants from the Massachusetts Department of Elementary and Secondary Education (DESE). These grants totaled more than \$8.9 million. MPS received these grants as a result of the American Recovery and Reinvestment Act (ARRA).<sup>1</sup>

The OIG is reviewing ARRA-related grants to identify potential vulnerabilities to fraud, waste, and abuse and other risks that could negatively impact the accountability, transparency, and anti-fraud mandates contained in the statutory language and interpretive guidance of ARRA. Our review of the provided documents should not be construed as an audit, investigation, or a comprehensive programmatic review. The OIG intends these reviews to assist recipients of ARRA funding identify and address risks.

The OIG has focused its review of MPS SFSF grant expenditures on the purchase of supplies and services. The OIG chose a sample of expenditures from the supplies and services category and reviewed them to ensure compliance with applicable law and regulation. Although the OIG review did not focus on payroll expenditures, the OIG did review one-time salary "stipends" granted to a small group of MPS management staff. For this review, the OIG reviewed MPS documents, spoke with MPS staff, and contacted MPS vendors to confirm payments.

---

<sup>1</sup> Methuen Public Schools received more than \$8.9 million in ARRA SFSF funding according to the federal government's Recovery Act website [www.Recovery.gov](http://www.Recovery.gov).

- 1) **Expenditures:** The OIG sampled a number of expenditures and our findings are as follows:

*Tuition:* In FY2009, MPS used ARRA funds to reimburse itself for fourth quarter special education tuition that it had pre-paid prior to the receipt of ARRA funding. The OIG reviewed the expenditure of \$302,901.00 to the Greater Lawrence Educational Collaborative (GLEC) and \$95,748.00 to the SEEM Collaborative. The OIG verified that MPS maintained adequate documentation for these expenditures. The OIG also attempted to verify with GLEC that it had billed for and received the payments claimed by MPS. Unfortunately, this verification could not occur. Recent management changes, conversion to a new accounting software system, and record keeping challenges at GLEC have impeded this verification.

Also, the OIG discussed with MPS what appeared to be a \$25,782.00 bookkeeping discrepancy between what MPS budgeted for SEEM tuition and subsequent payments made to SEEM. MPS offered a satisfactory explanation and the OIG verified that in fact no error or discrepancy existed.

*Consultants:* In FY2010, MPS hired “consultants” for \$29,100.00 to provide professional training for district staff. Although MPS ledger details reflect the payment being made to one vendor, MPS paid two vendors. MPS is aware of this discrepancy and took corrective action. The OIG also verified that each consultant had a signed contract with MPS and that payments to the consultants did not exceed either the contract or purchase order amount. The OIG also examined MPS files to ensure that they contained appropriate documentation for these expenses. In response to the OIG’s initial request, MPS files only contained back-up documentation that reflected \$11,000.00 in payments to one consultant. According to MPS, the consultants received \$17,600.00 and \$11,500.00 respectively. MPS subsequently provided information to verify these total payments.

*Paper:* In FY2010 and FY2011, MPS purchased nearly \$199,000.00 in photocopy paper using ARRA funds. The OIG reviewed these purchases and found that MPS had made this purchase from a cooperative purchasing agreement with GLEC. The OIG verified that GLEC is authorized to conduct this type of cooperative purchase and that MPS may make purchases under this agreement. The OIG also reviewed GLEC procurement files to determine whether GLEC used appropriate procurement practices in choosing a vendor. Although it appears from GLEC records that a competitive procurement was attempted, GLEC recordkeeping issues as referenced in a previous finding made a final determination difficult. For example, GLEC could not provide evidence of bids received from other than the winning bidder. If MPS plans to continue to use GLEC cooperative purchasing agreements then the OIG recommends that MPS require GLEC to maintain complete and accessible procurement files as required by M.G.L. c. 30B. The OIG also recommends that MPS and other

entities that purchase supplies from a GLEC contract have a copy of the vendor's contract and price lists readily available in order to independently verify vendor pricing without contacting GLEC.

The OIG also verified that MPS maintains adequate back-up documentation for these paper purchases and the OIG verified that MPS paid the GLEC contract price to the vendor for these purchases.

*Educational Materials and Training:* For FY2011, the OIG verified that MPS maintained adequate documentation and followed applicable procurement rules for \$74,791.00 in purchases from eight vendors (Solution Tree, University of Massachusetts Lowell, the American Program Bureau, Committee for Children, Follett Educational, Pearson Education and Reconnecting Youth) for educational materials and professional development services.

- 2) **Textbook Procurement:** MPS purchased textbooks and educational materials with ARRA funds without using a competitive process required under M.G.L. c.30B. MPS stated that textbook purchases are exempt from M.G.L. c.30B.

This is not correct. When there is no competition for a supply or service, MPS can procure that supply or service under M.G.L. c.30B's "sole source" provision. Usually the maximum amount under M.G.L. c.30B for sole source procurement is \$25,000. For textbooks and educational materials there is an exception in M.G.L. c.30B that allows for sole source procurements in an amount over \$25,000. Regardless of whether the procurement is over or under \$25,000, the statute requires in all cases first that a reasonable investigation is conducted and that a written determination is made that only one practicable source for the supply or service exists.

Thus where there is only one "practicable source," such as with a proprietary textbook, MPS must prepare a written determination to that effect. Moreover, MPS school committee policy entitled "Bidding Requirements" requires a competitive bidding process for "amounts exceeding \$25,000" for "materials and equipment," which arguable includes textbooks and educational materials. The MPS policy does not reference any exceptions to this policy.

Based on the OIG sample of MPS transactions, MPS violated M.G.L. c.30B and MPS policy in FY2010 and FY2011 by making textbook and educational materials purchases in excess of \$25,000 without preparing a written "sole source" determination that "only one practicable source" existed for the textbooks. Since these requirements were not met, the procurements were subject to the standard invitation for bid (IFB) or request for proposal (RFP) requirements, including advertisement, issuance of solicitation documents and selection of the lowest or most advantageous vendor.

The OIG also verified that MPS files contained appropriate documentation for the

purchases including invoices, purchase orders, copies of checks and that appropriate general ledger entries had been made.

- 3) **Segregation of Duties**: The OIG's review of MPS documents identified approvals for account transfers and vendor payments made by staff outside the business office. The OIG expected to see the school business administrator or business office staff sign-off on or approve business and accounting transactions. According to the Department of Revenue (DOR), the responsibilities of the school business manager include developing the budget, preparing financial plans, assisting with policy decisions, planning and designing financial and accounting controls, overseeing day-to-day accounting, and reviewing payroll, payments, purchase orders and other transactions. The school business administrator informed the OIG that a number of the functions outlined by DOR are not performed by the business office.

The OIG found that the Director of Human Resources (formerly for the City, then the City and MPS and now for MPS only) performs many business office functions including the approval of payment transactions. The Superintendent responded to OIG questions about these approvals by stating that in recent years, the Director of Human Resources has had an expanded role within the school district.

It is the prerogative of MPS to assign tasks and job functions at it sees fit. However, the OIG is concerned from an internal control and governance standpoint that business functions are performed outside the control and oversight of the MPS business office structure. For example, the Director of Human Resources has the authority to alter employee titles, benefit levels, and salary. Without this segregation of duties, the Director could arbitrarily increase an employee's salary, approve a transfer of funds to pay for this salary increase, and then approve payment to the employee. The Director could also ensure that the budget contains funding for this salary increase in the future. All this can be done without other staff being aware. This lack of segregation of duties creates a control weakness that dramatically increases MPS' exposure to fraud, waste, and abuse. The same individual should not be able to authorize expenditures and then approve the expenditures. In cases of fraud, this authority is often used to generate fraudulent payments or to steer payments to certain individuals in order to unlawfully enrich the party(ties) involved. MPS should more clearly define lines of authority between the business/finance and human resources functions and ensure that adequate internal controls exist for the payment/school business process.

- 4) **Salary Stipends**: MPS carried over \$217,205 from FY2011 into FY2012. Of this amount, the Superintendent allocated \$44,305 (or 20%) of this amount for one-time salary stipends to eight non-union district managers. According to the Superintendent, MPS issued these stipends: a) as an "incentive for administrators who have worked for MPS over three years to remain working in

the district even though their salaries are comparatively lower than administrators in like-sized districts”, b) as an “incentive for administrators who have worked here longer than three years and have not seen a raise during that time,” c) and to adjust some salaries that had been made “inequitable”<sup>2</sup> as a result of step increases granted to union employees working for these administrators.” According to DESE, these incentives are an allowable use of SFSF ARRA funds. OIG concerns stem from the following:

- a. MPS had until September 30, 2011 (the first quarter of FY2012) to expend these funds. Evidence points to an MPS decision to award these stipends at the end of FY2011 for FY2012. Making this decision at the end of the fiscal year has the appearance of a last-minute effort to expend funds before these funds would be returned to the grantor. MPS had this funding for 27 months before deciding to grant incentives to senior staff.
  - b. ARRA funding requires an unprecedented level of accountability and transparency. MPS granted these stipends with little documentation and without the knowledge of the school committee. MPS intended these stipends to remain confidential. According to MPS staff, the stipends became known because of a “leak” to the school committee. Keeping ARRA expenditures confidential violates the spirit if not the actual requirements of the ARRA act.
- 5) **End of year payments**: The OIG review identified a series of e-mails between MPS staff at the end of FY2010 regarding the possible pre-payment of textbook invoices. MPS considered prepayment because the books would not be received until after the end of the fiscal year on June 30<sup>th</sup>. If MPS did not spend these funds by June 30<sup>th</sup>, then MPS would have to return the funds to DESE. MPS determined that prepayment would be inappropriate (and could have been a violation of Municipal Finance Law) and opted to encumber<sup>3</sup> the funds instead thereby enabling payment to be made in the next fiscal year. According to DOR guidelines, encumbrances are appropriate as long as “a commitment” has been made “in the form of a binding contractual obligation, to purchase goods or services from the fiscal year budget appropriation.” MPS should ensure that it has an appropriate commitment in place before encumbering funds and should ensure that encumbered funds are expended within a reasonable period of time.

---

<sup>2</sup> In some cases, administrator salaries had become lower than the union employees for whom the administrators had supervisory responsibility. The Superintendent considered this to be “inequitable” and remedied the situation by using the salary stipends.

<sup>3</sup> According to DOR, an encumbrance is: “A reservation of funds to cover obligations arising from purchase orders, contracts, or salary commitments that is chargeable to, but not yet paid from, a specific appropriation account.”

6) **Accountability and Transparency**: To help MPS strengthen its capacity to prevent, deter, and detect fraud, waste and abuse, the OIG encourages MPS to:

- Develop code of conduct and ethics policies and ensure that all employees are aware of all relevant policies that address staff conduct and ethics. MPS should elevate awareness of these policies and employees should be made to acknowledge that they have read and understood these policies. All policies should be reviewed periodically for relevance and compliance with any legal or regulatory changes. Current MPS policy (updated in July 2010) states that employees must follow the requirements of M.G.L. c.268A and the 2009 updates to the statute including an on-line ethics exam requirement. The policy also states that “professional staff be familiar with the code of ethics that applies to their profession,” that employees should not “engage in work” that uses MPS data, and that no employee have a “financial interest in...any activity that conflicts or raises a reasonable question of conflict” with duties to MPS.

MPS should note that the ethics exam requirement should be viewed as a supplement to, not a replacement for, knowledge and enforcement of the state and local rules that apply to MPS. This knowledge and enforcement is dependent on written policies that are known to and used by staff and management alike. Although the MPS policy does cite specific prohibitions, a one-page policy does not make up for training and enforcement.

- Develop an anti-fraud policy and enforcement program. For guidance, please review the fraud advisory on our website (at the following link).

<http://www.mass.gov/?pageID=oschomepage&L=1&sid=Aosc&L0=Home>  
[http://www.mass.gov/iq/oigarra/arra\\_fraud\\_advisory.pdf](http://www.mass.gov/iq/oigarra/arra_fraud_advisory.pdf)

- Require employee training that addresses ethics and fraud, waste, and abuse. This training should reinforce current policies and help raise employee awareness of fraud and abuse potential. Currently, the State Ethics Commission can provide MPS with ethics training.
- Conduct a Fraud Risk Assessment. This is a tool that is used to identify vulnerabilities and efficiency issues that may affect the achievement of organizational or programmatic goals. MPS should consider periodically completing its own risk assessment of its programs to identify, and rate the significance of, any potential risks that may not have been identified previously. Risk assessment resources are available through various public, private, and not-for-profit sources including the Office of the State Comptroller.

I appreciate your cooperation in this review. Please do not hesitate to contact the  
OIG with any questions or concerns you may have regarding this review.

Sincerely,

Neil Cohen  
Deputy Inspector General

Attachment

cc: Mayor Stephen Zanni, Chair, School Committee  
Mary Lou Bergeron, Chair of the GLEC Board of Directors  
Lyn Griffin, Grant Manager, Methuen Public Schools  
David LeBlanc, DESE Director of Audit & Compliance



The Commonwealth of Massachusetts  
Office of the Inspector General

GREGORY W. SULLIVAN  
INSPECTOR GENERAL

JOHN W. MCCORMACK  
STATE OFFICE BUILDING  
ONE ASHBURTON PLACE  
ROOM 1311  
BOSTON, MA 02108  
TEL: (617) 727-9140  
FAX: (617) 723-2334

June 1, 2009

Dear Local Official:

I am pleased to issue a model Purchase Order Form (June 2009) for purchases by Commonwealth of Massachusetts cities, towns, districts, counties, and authorities (cities and towns) from vendors on Massachusetts Operational Services Division (OSD) statewide contracts and contracts issued by an executive department, pursuant to 801 CMR 21.00 that is open for use by other entities (department contracts). My General Counsel's office devised this form, which was accomplished through a working group of Barbara J. Hansberry, General Counsel, Inspector General's Office; Bill McAvoy, General Counsel, Operational Services Division; Jenny Hedderman, General Counsel, Office of the Comptroller; along with Carol H. McGravey, Esq., a municipal attorney and Katharine M. Sacca, Chief Procurement Officer for the city of Chelsea.

The working group strove to make statewide contracts and department contracts more user-friendly for cities and towns, an innovation that has been long-awaited by many local procurement officials. The Purchase Order Form is attached to this letter.

I hope that you find the Purchase Order Form useful. We are interested to hear any comments that you have on the Purchase Order form. Please direct your comments to Helen Flaster, Deputy General Counsel at [Flasterhe@maoig.net](mailto:Flasterhe@maoig.net) or 617-722-8821.

Sincerely,

*Gregory W. Sullivan*

Gregory W. Sullivan  
Inspector General

COMMONWEALTH OF MASSACHUSETTS  
**CITY, TOWN, DISTRICT, COUNTY AND AUTHORITY PURCHASE ORDER**  
 FOR COMMODITIES AND/OR SERVICES

\*  COMMODITY/EQUIPMENT       SERVICE

THIS PURCHASE ORDER CONFIRMS AN ORDER THAT WAS PREVIOUSLY PLACED. PLEASE DO NOT DUPLICATE.

<b>*Purchase Order Issue Date:</b>	<b>*Purchase Order Number:</b>	
	<b>Contract Number:</b>	
<b>Requested Delivery Date:</b>	<b>Call to Schedule Delivery Appointment:</b>	<b>Freight Terms:</b>
	<input type="checkbox"/> yes (tel. _____ ) <input type="checkbox"/> no	<input type="checkbox"/> Freight on Board - Destination <input type="checkbox"/> Other (Specify) _____

**Vendor Information**

<b>*Name:</b>	<b>Contact Person:</b>
<b>*Address:</b>	<b>Telephone:</b>
<b>*City, State, Zip Code:</b>	<b>Fax:</b>
	<b>Email:</b>
	<b>Quote Number (if applicable):</b>

**Awarding Authority Information**

<b>*Ship to Awarding Authority Name:</b>	<b>*Bill to Awarding Authority Name:</b>
<b>*Contact Person:</b>	<b>*Contact Person:</b>
<b>*Address:</b>	<b>*Address:</b>
<b>*City, State, Zip Code:</b>	<b>*City, State, Zip Code:</b>
<b>*Telephone:</b>	<b>Telephone:</b>
<b>Email:</b>	<b>Email:</b>
<b>Delivery Instructions:</b>	<b>Prompt Payment Discount (Terms &amp; %):</b>

**Instructions to the Vendor:**

1. The vendor's invoice must include the following minimum information: Purchase order number, quantity and description of item(s) shipped, unit of measure, unit price, total dollar amount of any discount, total price and the vendor's invoice number.
2. The purchase order number must appear on the vendor's packing list.
3. See attached specifications, if any, related to this purchase order. If this purchase order is for services, please see the section entitled Engagement of Services below. Additional specifications are not necessary if the details of the performance are covered in the contract.
4. Vendor assumes risk of loss for commodities in transit. All commodities are subject to inspection upon delivery. Commodities delivered after the Requested Delivery Date above may be rejected. Rejected commodities will be returned at the vendor's expense.

**\* Engagement of Services:** Provide a brief description of the services (attach detailed specifications, if appropriate), including the Statement of Work (SOW), start and end dates of service, deliverables, number of hours, hourly rates and total costs associated with this engagement. The vendor must sign this form for the engagement of services.

Dates of Services: \_\_\_\_\_ - \_\_\_\_\_      Hourly Rate: \$ \_\_\_\_\_      Number of Hours: \_\_\_\_\_      Total Cost: \_\_\_\_\_

Line #	Vendor Item Number	Item Description	Unit of Measure	Quantity	Unit Price	Subtotal (Quantity x Unit Price)	Discount	Total Price (Subtotal minus Discount)
1								
2								

<p><b>Awarding Authority Approval:</b>  <b>Signature:</b> _____  <b>*Printed Name:</b> _____  <b>*Date:</b> _____</p> <p><input type="checkbox"/> Check box to indicate that additional legal terms of Awarding Authority are attached, and/or check off box(es) on page 2 of 2 of this form to incorporate requirements on that page. Where the legal terms of a Commonwealth Contract and any Awarding Authority conflict, the Commonwealth Contract's legal terms shall prevail.</p> <p><b>* Vendor Signature</b> (By signing this purchase order the vendor accepts the additional legal terms and requirements of the Awarding Authority, if any.)  <b>*Signature:</b> _____  <b>*Printed Name:</b> _____  <b>*Date:</b> _____</p>	<p><b>Subtotal:</b> _____</p> <p><b>Shipping and Handling (if applicable):</b> _____</p> <p><b>**Total Order Amount:</b> _____</p>
---	--

\* Indicates required field. \*\*Purchase Order is Tax Exempt.

COMMONWEALTH OF MASSACHUSETTS  
**CITY, TOWN, DISTRICT, COUNTY AND AUTHORITY PURCHASE ORDER**  
FOR COMMODITIES AND/OR SERVICES

**Awarding Authorities may incorporate the following requirements by checking the boxes below and filling in any information where indicated:**

1. **Prevailing wage job identification number** \_\_\_\_\_. (Awarding Authority must request a wage schedule from the Division of Occupational Safety prior to selecting a Statewide or Department Contract.)
2. The contract term will be \_\_\_\_\_, \_\_\_\_ through \_\_\_\_\_, \_\_\_\_, with an option to renew for an additional year from \_\_\_\_\_, \_\_\_\_ through \_\_\_\_\_. This option is exercisable solely at the Awarding Authority's discretion.
3. The contract term will be \_\_\_\_\_, \_\_\_\_ through \_\_\_\_\_, \_\_\_\_, with two options to renew for an additional year from \_\_\_\_\_, \_\_\_\_ through \_\_\_\_\_, \_\_\_\_ and from \_\_\_\_\_, \_\_\_\_ through \_\_\_\_\_. These options are exercisable solely at the Awarding Authority's discretion.

**VENDOR CERTIFICATIONS**

**Commonwealth Contract Terms and Conditions and Standard Contract Form Certifications apply to this Purchase Order.**

The Vendor agrees that by executing this Purchase Order all contract terms and rights of the Commonwealth in the Commonwealth Contract shall inure to the benefit of the Awarding Authority, thereby placing the Awarding Authority in the same position as the Commonwealth, including but not limited to the terms and conditions that are found in the Commonwealth Terms and Conditions Form and/or the certifications made by the Contractor by signing the Commonwealth Standard Contract Form.

**CERTIFICATE OF NON-COLLUSION**

The undersigned certifies under penalties of perjury that this quote has been made and submitted in good faith and without collusion or fraud with any other person. As used in this certification, the word "person" shall mean any natural person, business, partnership, corporation, union, committee, club, or other organization, entity, or group of individuals.

\_\_\_\_\_  
Signature of individual submitting quote

\_\_\_\_\_  
Name of business

**AWARDING AUTHORITY CERTIFICATION**

**CERTIFICATION AS TO AVAILABILITY OF FUNDS:**

\_\_\_\_\_  
Town Accountant [See comment, below]     Date

[Comment: Wording will vary depending on the form of government of the jurisdiction.]