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INDEPENDENT STATE AUDITOR'S REPORT ON CERTAIN ACTIVITIES OF THE EVERETT SCHOOL DEPARTMENT JULY 1, 2002 THROUGH JUNE 30, 2004

OFFICIAL AUDIT REPORT

MAY 11, 2005

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The Everett Public School System (EPS) is a public school system within the Commonwealth providing educational services to approximately 5300 students in six schools. During fiscal year 2004, EPS expenditures totaled over $53 million.

During February 2003, reports of an investigation relative to EPS's contracting activities appeared in the media. Subsequently, on March 26, 2004, the Office of the Massachusetts Attorney General (OAG) announced 41 indictments against 11 people, including the city's Superintendent of Schools and five corporations who allegedly participated in the directing of the award of contracts to certain contractors and in so doing, circumvented the statutorily required competitive bidding process. The investigation, conducted jointly by the OAG, the Massachusetts Office of the Inspector General (OIG), and the State Police, had identified at least 63 contracts worth more than $552,000 during a five-year period from 1998-2003 that were allegedly obtained by fraudulent means. As a result, during fiscal year 2004, the city, under the provisions of Section 7 of Chapter 46 of the Acts of 2003, requested that the Office of the State Auditor (OSA) conduct an audit of EPS for the period July 1, 2002 through June 30, 2004. In response to this request, the OSA agreed to conduct a limited scope review of certain activities of EPS during fiscal years 2003 and 2004. However, in some instances it was necessary for us to conduct audit testing outside this audit period to meet our audit objectives.

Our audit objectives, which were agreed to by the city, consisted of the following: 1) to assess the system of internal controls the city has established relative to EPS activities including those relating to the administration of grants, 2) to evaluate the procurement process utilized by the school department and its adherence to applicable city ordinances state and federal laws and regulations, 3) to conduct transaction testing of EPS expenditures to determine if expenses being incurred by EPS are being properly approved, adequately documented, and funds are being used for their intended purpose in compliance with all applicable laws, rules and regulations, and 4) to assess various school personnel employment practices and procedures including : staff qualifications and hiring and layoffs, to determine if the practices being followed by EPS in these areas, are consistent with applicable laws rules and regulations and the terms and provisions of union contracts in force during the period covered by our audit. In addition to these agreed upon areas of review, during the conduct of our audit work, EPS also incurred a budget deficit. As a result, we independently expanded our testing to also include an examination of EPS budgetary process

Our audit identified a number of areas where the internal controls the city and EPS have established over certain activities could be improved. As a result of these internal control problems, we found a number of instances involving millions in city, state and federal funds where EPS did not comply with applicable laws, guidelines and city ordinances in the administration of these funds. We also identified various personnel problems and problems with EPS and city budgeting process, as detailed below:

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During our audit period, the city and the Everett Public Schools (EPS) had not implemented adequate controls over the procurement of goods and services and the payment of expenses including maintenance related expenses. In addition, on a number of occasions, EPS did not adhere to city ordinances relative to the procurement of maintenance related items. As a result, we found a number of problems with the maintenance expenses we reviewed including; at least 30 quotes relative to contracts totaling $264,354 that were questionable or not authentic, at least three instances relative to $171,465 in expenditures where EPS appeared to have split the project's costs into segments to avoid competitive procurement requirements, failing to get three written quotes for expenditures totaling $86,069 and purchasing items totaling $274,705 without first obtaining a purchase order as required by city ordinances.

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We found that the city and EPS have not implemented adequate controls over their budgeting activities. For example, the city and EPS do not have formal written policies and procedures relative to their budgetary process. Also, the budgetary tracking and reporting arrangements employed by EPS are inadequate. Until the city's January 2004 implementation of a budget tracking process, neither the accounting system used by the city nor the one used by EPS provided an overspending alert until an expenditure transaction was entered that placed an account in a deficit position. However EPS continued to overspend certain accounts even after implementation of the city tracking process. Even when accounts are in deficit positions, EPS continues to process expenditures from the accounts once approvals have been secured from the Superintendent or Associate Superintendent without notifying or securing further approval by the School Committee. As a result of these and other internal budgetary control deficiencies, we found problems with EPS's budgeting activities during the conduct of our audit. Specifically contrary to state law, EPS overspent its city-appropriated funding amounts during fiscal years 2001 through 2004 by over $1.2 million. These budgetary deficits were paid for with tax levies without the required certifications and approvals by the City Council.

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We found that during our audit period, EPS engaged in several questionable personnel activities. Specifically, EPS routinely lays off all newly hired teachers at the end of each school year regardless of the actual number of layoffs warranted by projected budgetary shortfalls. For each of the past three years, over 200 staff, approximately 160 of which are teachers, have been laid off even though the vast majority of these have been rehired at the start of the following year. This practice is contrary to the provisions of Chapter 71, Section 42, of the Massachusetts General Laws, which permits layoffs only in those

instances where there is declining enrollment or other legitimate budgetary concerns. Additionally, this practice of routinely laying off all non-tenured teachers may encourage the licensed teachers to seek employment in other school districts. In fact, we found that many of the newly hired, teachers who had obtained the highest level of licensure (8 of the 16 hired or 50%) are leaving EPS within the first two years of being hired.

We also found that for fiscal year 2004, over 66% of EPS's $89,016 expenditures for tutoring, were in fact expended for non-tutoring activity such as setting-up for the homecoming parade, security work, data-processing, various painting project including a City of Champions banner, sandwich board for Everett Stadium and the lettering of football team helmets. We also noted that during fiscal years 2002 and 2003, tutoring funds were used for some non-tutoring activities such as lettering motorcycles for the police department, and sign painting, including the painting of signs for a church. By not spending this money on tutoring activities, EPS may be denying some students the opportunity to improve their academic performance.

Additionally, we found that, contrary to city ordinances, EPS settled one claim and was in the process of settling a second claim against EPS staff without the knowledge and/or approval of the City Solicitor. Also, we found one instance where EPS did not address a problem identified by Education Management Accountability Board (EMAB). Specifically, in 1999, an EMAB review noted that the Superintendent's employment contract as well as the contracts involving other EPS administrators did not provide the School Committee with a means to terminate the agreement early if the annual evaluation or other events led the Committee to conclude that there was good cause for termination. Finally, our review of personnel files revealed a number of problems including missing job applications, resumes, job descriptions, educator licensure documentation and in many instances, layoff and rehire documentation.

4. EPS IS UTILIZING UNLICENSED TEACHERS AND IS NOT ACCURATELY REPORTING THE NUMBER OF LICENSED TEACHERS TO DOE 39

We found a number of instances where EPS did not comply with educator licensing and certification requirements established by state law and regulations. Specifically we reviewed the personnel files of 244 of the 588 educators on EPS's payrolls during the period July 1, 2002 through December 31, 2004 (including 66 new hires) and found licensure issues existed for 87 teachers and administrators, 69 of whom were still active on EPS payroll during the 2004-05 school year. These included; allowing unlicensed teachers to teach for prolonged periods up to seven years by classifying them as "permanent substitutes' without obtaining appropriate licensure or waiver approval from DOE and also filing inaccurate reports with DOE relative to the number of licensed teachers on staff.

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We found that EPS had not developed and implemented an adequate system of internal controls over the administration of grant funds and the authorization and payment of grant expenses. As a result, EPS did not adhere to certain federal and state grant requirements, its own grant application criteria, and to city ordinances in the processing of grant payments. For example, we found that contrary to the conditions of its grants, EPS used $830,096 in grant funding during fiscal years 2003 and 2004 to pay for the

payroll costs of existing teachers as opposed to hiring new teachers as was stated in the grants, did not maintain time and attendance records relative to $2,480,212 in payroll expenses charged to grants in accordance with federal regulations. In many instances, EPS did not follow city ordinances relative to the procurement of goods and services and incorrectly recorded and reported grant expenses in EPS's financial reports.

6. INADEQUATE CONTROLS OVER THE PROCESSING OF SCHOOL DEPARTMENT EXPENSES RESULTING IN HUNDREDS OF THOUSANDS OF DOLLARS IN EXPENSES NOT BEING PROPERLY PROCESSED AS WELL AS POTENTIALLY EXCESSIVE EXPENSES TOTALING $199,354 53

The city and EPS have not implemented adequate controls over the authorization and payment of EPS expenses. In addition, we found a number of instances where EPS did not adhere to the city ordinances and its own procedures in processing payments. As a result, in addition to the problems with EPS Maintenance Department expenses we identified in Audit Result No. 1, we also found numerous problems with the other EPS expenses we reviewed. For example, we found that based on our sample of transactions contrary to city ordinances $259,333 in expenses being paid prior to the issuance of a purchase order, $79,086 in expenses being allocated to the wrong accounts, the procurement of $6,090 in services split to avoid obtaining competitive quotes, $81,258 in services procured with no quotes, $199,354 in questionable expenses that included at least $135,115 for advertising and $64,239 for football team homecoming activities, $180,025 in potentially questionable and inadequately documented legal expenses and the failure of EPS to execute formal written contracts in accordance with city ordinances to 24 vendors for which they were required to do so.

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We found that contrary to city ordinances, EPS uses city money that is being maintained by an affiliated organization, the Shore Educational Collaboration (Shore), to pay for a variety of expenses without processing these expenses through the City Auditor and Treasurer. As a result, the city lacks the controls over these funds necessary to ensure they are being reported and expended for their intended purposes and in a manner consistent with applicable laws regulations and city ordinances. In fact, we found a number of problems relative to the payments made by EPS with these funds. For example, many of the purchases made with these funds were done without purchase orders or contracts as required by city ordinances, none of the expenses made with these funds were correctly reported in the financial activities of EPS thereby misrepresenting the actual expenses incurred by EPS, and some of the funds were used to pay the salary expenses of a retired part-time EPS employee who according to EPS Superintendent had exceeded the amount of compensation she could receive from the city as a retiree so the Superintendent agreed to pay for her continued employment using Shore funds.

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We found that the city and EPS have not developed and implemented an adequate system of internal controls over certain aspects of their operations. For example, we found that the city does not have adequate written policies and procedures for its

accounting, personnel, treasury or budget departments functions; has an accounting system that does not properly integrate its purchasing and payroll department activities with its accounting department activities; does not have adequate controls in place to ensure that proper procedures are followed relative to the procurement, payment and recording of goods and services purchases; and does not maintain an up to date inventory listing of its furniture and equipment items. As a result, the Commonwealth cannot be assured that public funds being provided to the city and EPS are being properly safeguarded against misuse and expended for their intended purposes, or that all city transactions are being properly authorized, recorded, and reported. In fact, as noted throughout this report, we noted a number of problems including non-compliance with state laws and city ordinances in the areas tested.

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INTRODUCTION

Background

The Everett Public School System (EPS) is a public school within the Commonwealth providing educational services to approximately 5300 students in six schools. These include five elementary schools (grades pre-kindergarten to grade eight), the George Keverian, Lafayette, Madeline English, Parlin and Sumner G. Whittier Schools and one secondary school, Everett High School (grades nine through twelve).

In June 1993, the state legislature enacted Chapter 71 of the Acts and Resolves of 1993, the Massachusetts Education Reform Act (MERA). The act was intended to provide statewide systematic reform for Massachusetts' public schools through a combination of management, governance and funding reforms. These reforms were incorporated into Chapters 70 and 71 of the Massachusetts General Laws. Chapter 71 of the General Laws includes extensive statutory provisions covering the respective powers and responsibilities of School Committees, Superintendents, and individual school administrators (Principals), as well as provisions governing school business practices and the certification requirements and employment practices applicable to different classifications of teachers and educational administrators and support personnel. Under the reformed system, local school departments remain units of municipal government and are subject to most provisions of municipal finance and administration laws enacted by the Commonwealth and municipalities. Elected School Committees are, however, given a special status under MERA with authority to directly hire Superintendents and School Business Administrators and to determine and amend line item budget details within the overall amounts appropriated by each municipality. In turn, MERA expressly prohibits over-spending by school departments beyond the total amount appropriated by the municipality and any additional funding from other sources such as grants. Municipal authority to control personnel decisions and specific budget line items is also significantly restricted under this legislation. However, MERA does not restrict the authority and duty of municipal officials such as auditors, treasurers and purchasing officers to enforce school department compliance with municipal finance law provisions. For example, under MERA municipal auditors retain their authority to examine school department records and stop the processing of transactions if they have reason to believe that they are illegal or that procurement requirements have not been met.

One of the main objectives of MERA was to develop a fair and equitable statewide system of school finance through provisions incorporated into Chapter 70 of the General Laws. Under this statute, the state Department of Education (DOE) uses a formula based approach to establish what is referred to as a Foundation Budget for each school system. The Foundation Budget takes a variety of factors into consideration including overall enrollment, special populations such as low-income and special education students, and employee wage factors. The Foundation Budget is adjusted each year for projected enrollment and inflation changes. This budget, after certain financial adjustments, is used to establish a "Net School Spending Requirement" for each system, which is the minimum amount of spending on specified school expenses that must be made by the community. The Net School Spending[1] (NSS) calculation also includes spending by local governments for costs such as general administration, insurance and employee benefits incurred indirectly on behalf of the community's school systems. In order to promote equity across communities with different financial resources, state aid, which is also referred to as "Chapter 70 Aid" is appropriated each year by the legislature and is distributed in accordance with a formula, determined by the legislature. Each community is then responsible for appropriating sufficient local funds, usually derived from tax revenues, to supplement the Chapter 70 Aid amount so that their NSS Requirement is met or exceeded. Chapter 70 Aid is distributed by the state to municipal treasurers, rather than directly to school departments, and the legislative body of the municipality then passes the aid through to the local school system using an appropriation of consolidated state aid and local funds. The table below summarizes the revenue and NSS amounts for the city during the period covered by our audit.

[1]"Net school spending", as defined by DOE, is the total amount spent for the support of public education, including teacher salary deferrals and tuition payments for children resigning in the district who attend a school in another district or other approved facility, determined without regard to whether such amounts are regularly charged to school or non-school accounts by the municipality for accounting purposes. It does not include any spending for items such as long term debt service, spending for school lunches, student transportation or tuition revenue or revenue.

Net School Spending Data for Everett*
Fiscal Years 2002 through 2005

Fiscal Year	Foundation Budget	Required Net School Spending	Chapter 70 Aid	Required Minimum Local Contribution	Reported Actual Local Contribution	Actual Net School Spending	Dollars Over/Under NSS Requirement
2002	$38,723,262	$38,732,374	$17,126,835	$21,605,539	$23,106,775	$40,233,610	$1,501,236
2003	$38,952,783	$39,778,082	$17,126,835	$22,651,247	$23,912,808	$41,039,643	$1,261,561
2004	$39,403,545	$39,403,545	$16,475,953	$22,927,592	$23,692,405	$40,168,358	$764,813
2005**	$43,024,525	$43,024,525	$19,175,244	$23,849,281	$23,393,559	$42,568,803	($455,722)

*Data complied from reports submitted by EPS to DOE.
**Budgeted amounts as reported by DOE from preliminary EPS submissions.

School systems, including EPS, also typically expend substantial additional amounts of funds either received from the Commonwealth or provided by municipal funding on other school related activities that are excluded from the Foundation Budget and the NSS calculation. These additional financial activities, which would not be reported in the table above, include:

- Student transportation,
- School meal programs (funded by sales and supplemental federal nutrition program support passed to schools through the state's Department of Education),
- State, federal, and privately funded grant programs,
- Athletic, extracurricular, adult education, and other programs such as evening, summer school and before/after-school programs funded by fee revenues or special supplemental local government appropriations for carrying out activities excluded from the defined scope of Foundation Budget/Net School Spending Activity, and
- School construction/long-term debt costs.

While this additional activity can vary significantly from year to year, the additional non-Net School Spending activity for EPS during fiscal year 2004, exceeded $13 million as detailed in the table below and brought EPS's total expenditures for the fiscal year to approximately $53.5 million.

EPS Non-Net School Spending Expenditure
Fiscal Year 2004

Special Education Transportation	$1.7 million
School Meal Programs	$1.7 million
Grant, athletic, extracurricular and other special programs	$5.3 million
Long Term Debt (Paid directly by the city)	$4.7 million
Total	$13.4 million

During February 2003, reports of an investigation relative to EPS's contracting activities appeared in the media. Subsequently, on March 26, 2004, the Office of the Massachusetts Attorney General (OAG) announced 41 indictments against 11 people, including the city's Superintendent and five corporations who allegedly participated in the directing of the award of contracts to certain contractors and in so doing, circumvented the statutorily required competitive bidding process. The investigation, conducted jointly by the OAG, the Massachusetts Office of the Inspector General (OIG), and the State Police, had identified at least 63 contracts worth more than $552,000 during a five-year period from 1998-2003 that were allegedly obtained by fraudulent means. As a result, 10 individuals, including EPS's Director of Maintenance, and five corporations, were indicted on procurement fraud, presentation of false claims, larceny and conspiracy charges. In addition, EPS's Superintendent was indicted on one count of receiving stolen property related to the theft of two $1,200 air conditioners that were purchased with EPS funds.

During the fall of 2004, three individuals and two companies pled guilty to charges contained in the aforementioned indictments including procurement fraud and agreed to pay restitution and fines. None of the three individuals who pled guilty were employees of EPS. Cases against the Superintendent, EPS Maintenance Director and six other individuals and their associated businesses remained pending as of the completion of our audit fieldwork.

Audit Scope, Objectives, and Methodology

During fiscal year 2004, the City of Everett, under the provisions of Section 7 of Chapter 46 of the Acts of 2003, requested that the Office of the State Auditor (OSA) conduct an audit of EPS for the period July 1, 2002 through June 30, 2004. In response to this request, the OSA agreed to conduct a limited scope review of certain activities of EPS during fiscal years 2003 and 2004. However, in

some instances it was necessary for us to conduct audit testing outside this audit period to meet our audit objectives.

Our audit objectives, which were agreed to by the city consisted of the following: 1) to assess the system of internal controls the city has established relative to EPS activities including those relating to the administration of grants, 2) to evaluate the procurement process utilized by the school department and its adherence to applicable city ordinances state and federal laws and regulations, 3) to conduct transaction testing of EPS expenditures to determine if expenses being incurred by EPS are being properly approved, adequately documented, and funds are being used for their intended in compliance with all applicable laws, rules and regulations, and 4) to assess various school personnel employment practices and procedures including: staff qualifications and hiring and layoffs, to determine if the practices being followed by EPS in these areas, are consistent with applicable laws rules and regulations and the terms and provisions of union contracts in force during the period covered by our audit. In addition to these agreed upon areas of review, during the conduct of our audit work, EPS also incurred a budget deficit. As a result, we independently expanded our testing to also include an examination of EPS budgetary process

In order to achieve our objectives, we first assessed the internal controls established and implemented by the city relative to EPS activities under our review. The purpose of this assessment was to obtain an understanding of control environment, and the flow of transactions through the city's accounting system. We used this assessment in planning and performing our audit tests. We held discussions with various city officials including the City Auditor, Assistant Auditor, Director of Personnel, Budget Director, Acting Treasurer, MIS Director, City Purchasing Agent, City Payroll Administrator, Solicitor, Assessor, as well as various EPS officials including: Superintendent, Associate Superintendent, Director of Maintenance, Maintenance Clerk, Payroll Officer, Grant Clerk, Accounting Clerk, as well as various DOE officials and the Chairman of EPS School Committee. We reviewed organization charts and internal policies and procedures as well as the applicable laws, rules, and regulations and city ordinances. We also examined the city's financial statements, and city and EPS budgets, cost reports, invoices, and other pertinent financial records to determine whether expenses incurred by EPS during the period of our review were reasonable, properly authorized, recorded and reported, and expended for their intended purposes in compliance with applicable laws, regulations, policies and procedures and city ordinances as well as

the terms and conditions of any collective bargaining agreements that were in effect during our audit period.

Our review was limited to the audit objectives detailed above. While our audit testing may have included looking at some transactions involving companies that were indicted as a result of the OAG's investigation mentioned in the Background section of this report, we did not design tests to specifically examine any activities currently being investigated by the OAG. Also, our audit was not conducted for the purposes of forming an opinion on the city's financial statements. Rather, our report is intended to report findings and conclusions on EPS activities we reviewed in terms of their efficiency and effectiveness and the extent of EPS's compliance with applicable laws, regulations, city ordinances and collective bargaining agreements and to identify services, processes, methods, and internal controls that could be improved.

A scope limitation occurs during an audit engagement when an auditee places restrictions on the scope of the auditor's work. These restrictions result in a disruption in the timing of the work, including the ability to apply all the audit procedures considered necessary in the circumstances of the engagement. During the course of our work, we encountered certain problems with requested information we did not receive which impaired our ability to conduct certain audit testing. .

Although city and EPS officials were cooperative in providing much of the requested information, we did encounter problems with some of the information we requested as follows:

- Documentation was missing for some of the transactions included in our test samples. These transactions primarily involved purchases made by EPS Maintenance Department. EPS officials told us that this may be because numerous documents had been seized by the State Police relative to the investigation mentioned in the Background section of this report and these officials were uncertain as to whether or not copies of all the seized materials had been returned to EPS. Certain other documentation regarding transactions processed by EPS through Shore Educational Collaborate Inc., an entity utilized by EPS to pay for certain goods and services (see Audit Result No. 7), were also not available.

- EPS personnel records were incomplete in that hundreds of documents such as lay-off and re-hire notices were not filed for multi-year periods (See Audit Result No. 3)

- Staff logs mandated by DOE for the purpose of documenting the names of all employees and the type and period of service provided, were either not consistently maintained or were not provided to us.

- We were provided with what were represented to be complete lists of newly hired employees, which we later discovered had omitted a significant number of teachers hired after the start of each school year.

- During its fiscal year 2004 audit of the city, the city's private accounting firm sent a bank confirmation to Eagle Bank in Everett to confirm the existence of and the balances in city bank accounts. Based on the information the accounting firm obtained from Eagle Bank, there were 13 accounts containing approximately $50,000 in funds that were under the city's federal identification number, of which city officials had no knowledge. These accounts were as follows:

Account Name	Amount
Parlin Student Council	$ 1,813
EHS Football Cheerleaders	4,554
Everett Community Partnership	7
Kelleher Memorial Scholarship	9
Center School PTA Scholarship	7,468
Lafayette PTA	16,771
Everett Girls Basketball	5,878
Lafayette Scholarship	2,287
Student Activity Account	8,652
Everett HS Boys Basketball	239
Everett Gridiron Club	128
Parlin School Builders Club	48
Snookl & Trickett Scholarship	2,156
Total	$50,010

During our audit, we visited the Eagle Bank with the City Treasurer to obtain information relative to these accounts (e.g., to determine who had signatory authority over these accounts). However, due to confidentiality laws, bank officials told us that since we were not identified as being individuals who had authority to conduct transactions in theses accounts, the bank was unable to give us any information relative to these accounts. Bank officials told us however, that the accounts in question had all been in active use during the last 36 months and, without identifying particular individuals, that the accounts had been established by School Department administrators and other school employees. We contacted EPS administrators in an attempt to obtain additional information regarding the accounts. In response to our inquiries, EPS's Associate Superintendent provided us with the following written comments:

> *As requested by you at our February 2, 2005 meeting with [the Superintendent] and [the Administrative Assistant], I contacted [the Acting City Treasurer] concerning the unauthorized bank accounts opened at Eagle Bank using the City of Everett's tax identification number. In a telephone conversation this afternoon, [the Acting City Treasurer] has informed me that Eagle Bank will not release any information concerning*

> *these accounts to her. However the Eagle Bank has contacted the signatories of these accounts and informed them that they have thirty days to supply an alternate tax identification number or the accounts will be canceled.*

Since neither the bank nor EPS officials were able to provide us with any additional information relative to these accounts, we were unable to conduct any audit testing on them during our audit. As a result, our report is based solely on the information that was provided to us by city, DOE, and EPS officials.

At the conclusion of our audit, we met with EPS and city officials to discuss the results of our review. EPS officials stated that they had taken measures to address many of the internal control, personnel, and other issues identified in our report.

AUDIT RESULTS

1. INADEQUATE CONTROLS OVER THE PROCESSING OF SCHOOL DEPARTMENT MAINTENANCE EXPENSES RESULTING IN $520,250 OF QUESTIONED EXPENDITURES

During our audit period, the city and EPS had not implemented adequate controls over the procurement of goods and services and the payment of expenses including maintenance related expenses. In addition, on a number of occasions, EPS did not adhere to city ordinances relative to the procurement of maintenance related items. As a result, we found a number of problems with the maintenance expenses we reviewed including; at least 30 quotes relative to contracts totaling $264,354 that were questionable or not authentic, at least three instances relative to $171,465 in expenditures where EPS appeared to have split the project's costs into segments to avoid competitive procurement requirements, failing to get three written quotes for expenditures totaling $86,069 and purchasing items totaling $274,705 without first obtaining a purchase order as required by city ordinances.

Also as noted in Audit Result No. 8, during our audit, we found that the system of internal controls the city and EPS had established over the procurement of goods and services and the payment of expenses could be improved. In addition to reviewing and testing the documentation relative to a sample of general EPS expenses (see Audit Result No. 6), we also decided to test a separate sample of maintenance related expenses incurred by EPS during our audit period. Consequently, we interviewed EPS's Director of Maintenance on several occasions to obtain an understanding of how the Maintenance Department procurement process works and to assess the internal controls over this process. During our first interview, the Director of Maintenance told us that for purchases under $25,000, a purchase requisition is completed and submitted along with the required three quotes to EPS Administration office by an EPS administrator, usually the Assistant or Associate Superintendent. The purchase requisition is then sent to the City Purchasing Department where a purchase order (PO) is completed and authorized by the City Purchasing Agent and returned to the School Department.

However, during a subsequent interview with the Director of Maintenance, she gave us information that conflicted with what she told us during our prior meeting. Specifically, she said that the Assistant Superintendent does not review the Maintenance Department purchase requisitions. Rather, she told us that about eighteen months ago, the Assistant Superintendent gave the Maintenance Department a pre-signed, blank Purchase Request form. Since that time, The Director of Maintenance told us, she has been photocopying this pre-signed blank Purchase Request form, inputting the goods or services that are to be purchased, and then submitting them via facsimile directly to the City's Purchasing Office, which has been approving these requisitions.

During our audit, we spoke with the Assistant Superintendent and he told us that he never pre-signs blank Purchase Request forms. He stated that he only approves/signs completed Purchase Request forms, and once he has approved them, he gives them to the clerk in EPS Accounting Office to forward to the City's Purchasing Department. The Assistant Superintendent told us that he does not keep a log of the Purchase Requests forms he approves and therefore we could not determine if in fact, all purchases being made by EPS Maintenance Department that were included in our sample, had in fact, been processed through his office for approval prior to being sent to the City Purchasing Agent. However, it should be noted, that contrary to what the Assistant Superintendent told us, during our audit we did find a Purchase Request form in the Maintenance Department that appears to have been pre-signed by the Assistant Superintendent.

According to city records, during fiscal years 2002 through 2004, EPS Maintenance Department processed over 1,700 non-personnel related transactions totaling over $2 million. During our audit, we tested a judgmental sample of 225 expenditures for maintenance-related items totaling $821,463 that were incurred by EPS during this period. Based on our review of the documentation EPS was maintaining relative to these transactions, we noted problems involving $520,250[2] of these expenditures, as follows:

a. Questionable Quotes Relative to Contracts Totaling $264,354

Chapter 30B of the General Laws and city ordinances require that EPS follow certain procedures when procuring goods and services. For example, according to city ordinances, for purchases of goods and services over $1,000 and up to $25,000, the city requires that three written quotes from competitive vendors be obtained. For all purchases over $25,000, a formal sealed bid process is required.

During our review of Maintenance Department expenditures, we noted numerous instances where quotes, purportedly submitted by potential vendors for various maintenance projects, appeared irregular (e.g., similar formatting and wording, identical facsimile header information from different vendors, identical spelling errors from different vendors). We judgmentally selected 29 of the contract files that contained quotes with these irregularities and attempted to verify their legitimacy. These files contained 53 quotes submitted by vendors who were not the winning bidders for the 29 contracts in our sample. Only three of the companies we contacted who had submitted a total of

[2] Although sections a through d of this audit result identify problems relative to a total $796,593 in expenditures, some transactions had multiple problems and were included in several sections of this audit result. The unduplicated amount of expenses with which we had problems is $520,250.

eight of the quotes in our sample did confirm to us that they had in fact submitted the quotes. Two other companies, who had submitted four quotes, did not have records to either confirm or deny that they had submitted the quotes in question. An additional 14 quotes were from seven companies that we were unable to contact for various reasons such as the phone number indicated on their quote was incorrect or company representatives did not return our phone calls. However, we did find problems with 30 quotes including some from the companies whom we could not contact. These problems pertained to EPS expenditures totaling $264,354, as follows:

- Officials from nine companies told us that 27 of the quotes that were on file with EPS as have been submitted by their company for services totaling $235,439 were not authentic and in fact, had not been submitted by their company. Included in these, were quotes totaling $53,892 that where obtained from a company which, according to its President, could not be authentic since his company had in fact been dissolved prior to the date of the quotes. The company, which had been out of business since 1997, purportedly submitted quotes for three different jobs with EPS in August, July and September 2002.

- We found two instances involving expenditures totaling $27,025, where quotes from competing vendors appeared to have been sent from the same facsimile machine on the same date at approximately the same time (within minutes of each other) to the EPS Maintenance Department. In one of these instances, the quote documents submitted by the Maintenance Department to the City Purchasing Department for approval, were altered in that they had been photocopied so that the facsimile heading was removed and that the fact that the quotes were sent from the same facsimile machine at approximately the same time was not evident.

- For one expenditure totaling $1,890 that was awarded by EPS during fiscal year 2004, we found that the same spelling error appeared on quotes from two different companies. Specifically, the procurement file for this expense, which was paid to J&S Glass, contained another quote from J&P Glass Co. We noted that both the J&S Glass quote and the J&P Glass Co. quote had the following misspelling: "Hight School". We called J&P Glass Co. to determine the authenticity of the quote but the owner of J&P Glass Co. could not confirm or deny that his company prepared the quote in question because his company did not keep a copy of the quote it submitted for this project. However, the owner told us that at the time this quote was submitted, there was only one J&P Glass Co. employee who was in charge of submitting quotes on behalf of his company. Although the signature on the quote submitted by J&P Glass Co. to EPS for this project was somewhat illegible, it was clearly not the name of the person that the owner of the company said was responsible for signing and submitting quotes on behalf of his company. In addition, the quote submitted to EPS for this project had an incorrect company address, which was handwritten on the quote.

b. Instances of Bid Splitting Totaling $171,465

According to Massachusetts General Laws and city ordinances, contracts or invoices may not be split in order to avoid obtaining competitive bids for goods for services.

Specifically, Massachusetts General Law Chapter 30B, Section 11, states the following:

> *No person shall cause or conspire to cause the splitting or division of any procurement, specification, invitation for bids, request for proposals, proposal, solicitation, or quotation for the purpose of evading a requirement of this chapter.*

Also, Chapter 2, Section 288(a) of city ordinances, states:

> *No requisition, order or contract shall be subdivided to avoid any of the requirements of this article.*

Despite these requirements, we found the following problems with some of the Maintenance Department expenditures we reviewed:

Services Split to Avoid a Sealed Bid Process

According to Chapter 30B of the General Laws and city ordinances, all procurements for goods and services over $25,000 require a formal advertised sealed bid process. However, our audit identified three instances, totaling $107,275 where bids were apparently split by EPS to avoid this $25,000 threshold, and circumvent bidding requirements. Examples of these bid splitting activities, are detailed in the table below:

Invoice Date	Vendor	Location	Description	Amount
9/5/01	Bradford Carpet	Parlin School	Install carpet tile in basement corridor	$17,784.20
9/5/01	Bradford Carpet	Parlin School	Install base in classrooms	$1,800.00
8/15/01	Bradford Carpet	Parlin School	Install carpet in basement classrooms	$20,400.00
10/18/02	Bradford Carpet	Everett High School	Carpet in Auditorium	$14,476.00
10/2/02	Bradford Carpet	Everett High School	Carpet in Band Room	$8,496.00
10/2/02	Bradford Carpet	Everett High School	Carpet in Chorus Room	$5,019.25
7/9/02	O'Connor Painting	Hale School	Paint – Stairwell ceiling and walls	$22,300.00
7/19/02	O'Connor Painting	Hale School	Paint – Stairwell walls, woodwork and molding; Basement and Cafeteria ceiling and walls	$14,600.00
7/24/02	O'Connor Painting	Hale School	Paint – Basement floor	$2,400.00

As can be seen in the examples above, the goods or services purchased were from the same vendor, around the same date and for the same type of service. However, the billings for the services appear to have been split so that they would not exceed amounts that would require a formal bidding process. According to the Director of Maintenance, there was never any intention to split bids. Rather, the Director stated that work was done when money became available and in some cases, the scope of the work changed as the work progressed. For example, the Director stated that at the High School, the decision to carpet the band and chorus rooms was not made until after the

auditorium was completed. However, EPS budget including funding for maintenance related items such as these is established at the beginning of the school year and at this time, the Maintenance Department knows how much money will be available throughout the year for projects of this type. For example, contrary to the assertions made by the Maintenance Director, during its April 22, 2002 meeting, the Everett School Committee voted to approve the carpeting at Everett High School that was performed by Bradford Carpet as indicated in the table above, as a single project rather than as separate projects when monies became available as was asserted by the Director of Maintenance. Also, it is important to note that the quotes for the carpeting of the auditorium, band and chorus rooms were all dated on the same date (July 2002) by each vendor, further indicating that EPS clearly intended to do this work as a single project.

Service Billings Split to Avoid Obtaining Three Written Quotes

According to city ordinances, "All purchases of, and contracts for materials, equipment and contractual services…involving the sum of one thousand ($1,000) or more and less than twenty-five thousand dollars ($25,000) will require solicitation of at least three written quotes and will be awarded to the lowest responsible vendor that meets the purchase description."

Despite this requirement, we identified at least 31 instances, totaling $60,940, where it appears that the Maintenance Department participated in bid splitting activities to avoid the $1,000 threshold. Examples of these instances are detailed in the table below:

Invoice Date	Vendor	Location	Description	Amount
7/31/01	Burnett and Moynihan	Parlin School	2 double door units	$430.00
7/25/01	Burnett and Moynihan	Parlin School	2 double door units	$430.00
7/25/01	Burnett and Moynihan	Parlin School	2 double door units	$430.00
8/31/01	Burnett and Moynihan	Parlin School	2 double door units	$430.00
7/25/01	Burnett and Moynihan	Parlin School	2 double door units	$430.00
12/4/03	East Coast Electronics	High School	Football playoff game - Labor	$962.00
12/4/03	East Coast Electronics	High School	Football playoff game - Equipment	$437.00
12/4/03	East Coast Electronics	High School	Football Thanksgiving game - Equipment	$293.00
12/4/03	East Coast Electronics	High School	Football Thanksgiving game - Labor	$ 925.00
8/27/02	Keane Fire and Safety Equipment	Hamilton	Service and tag Fire Extinguishers	$52.50
8/30/02 and 9/9/02	Keane Fire and Safety Equipment	Parlin, Devens, Hale	Service and tag Fire Extinguishers	$936.70
8/30/02	Keane Fire and Safety Equipment	Webster, Whittier	Service and tag Fire Extinguishers	$ 978.70
9/9/02; 9/12/02; 9/17/02	Keane Fire and Safety Equipment	Lewis, EHS, Adams, Devens	Service and tag Fire Extinguishers	$979.85
9/12/02	Keane Fire and Safety Equipment	EHS	Service and tag Fire Extinguishers	$886.75
10/15/02	McCarthy Flagpole Service	EHS	Dismantled 70" flagpole at EHS	$880.00
10/16/02	McCarthy Flagpole Service	Admin Building	Removed 30" flagpole from EHS flagpole & installed at Admin Building	$ 840.00
10/16/02	McCarthy Flagpole Service	Hale School	Worked on flagpole	$360.00
10/15/02	McCarthy Flagpole Service	Admin Building	Removed 14' flagpole from Admin Building	$300.00
10/16/02	McCarthy Flagpole Service	EHS	Installed 30' flagpole at EHS	$640.00
10/15/02	McCarthy Flagpole Service	EHS	Scrapped and painted flagpole at EHS	$ 720.00
10/16/02	McCarthy Flagpole Service	Parlin	Scraped and painted flagpole at Parlin	$ 900.00

In addition to the examples noted above, we identified two instances, totaling $3,250 where vendors were actually instructed by EPS staff to resubmit invoices to avoid this $1,000 threshold, as follows:

- Roy Merenda and Sons Inc. originally sent a $1,650 invoice dated January 2, 2002 to EPS for sanding and refinishing the floor of the Everett High School stage. This invoice had "New

Bills!" hand written across the original invoice in red ink. The contractor subsequently sent two separate invoices for this same service both dated January 8, 2002, for $875 and $775.

- Tremco, Inc. sent an original invoice for $1,600 on August 6, 2002 to EPS for work it did at the Hale School. The Maintenance Department file had a copy of the invoice with "New bills coming" hand written on a note, which had been attached to the original invoice. The file also contained a copy of a memorandum to this vendor describing how to breakdown the invoice. Tremco, Inc. subsequently submitted two separate invoices for this same service for, $800 and $800, dated September 20, 2002 and September 23, 2003 as the memorandum directed.

EPS's Director of Maintenance, told us that when work needed to be done at the schools, she would call in a contactor to do the work, thinking that the total cost would not exceed the $1,000 threshold. If the work went over the $1000 threshold, the Director told us she would tell the contractor to submit multiple invoices because she knew that the City Purchasing Department would not pay an invoice over $1,000 without three quotes. She stated that the health and safety of the students came first so she did what she had to do to get the job done. She added that in most instances, it was never her intention to split jobs/invoices but work was done based on the availability of funds and in some cases, the scope of work changed as the job progressed and more funds became available. However, despite the contentions made by the Maintenance Director, it is clearly her responsibility to make sure all procurements are done in accordance with the requirements of applicable statutes and city ordinances.

c. Expenditures Totaling $86,069 Were Made Without Obtaining the Required Three Quotes

As noted above, purchase orders must be requisitioned and approved before purchases can be made, and for all purchases over $1,000, three written quotes must be obtained and submitted with the purchase requisition. However, in our sample of 225 expenditures, we noted 8 instances, totaling $86,069 where three written quotes were not obtained for transactions over $1,000. For example, J&M Build Corp was paid $12,362.50 during fiscal year 2002 for installing a drop ceiling in the Parlin School. However, EPS did not get the required three written quotes for this project.

d. Purchases Totaling $274,705 Were Made Prior to Obtaining a Purchase Order as Required by City Ordinances

Chapter 2 , Section 287(a), of the city's ordinances require that "Requisitions for the purchase of supplies, materials, equipment or contractual services for a department, board or commission shall be received by the purchasing department prior to the issuance of a purchase order or contract…"

Despite these requirements, we found that in 76% of the Maintenance Department transactions we reviewed, a purchase order was not obtained until after the order date or the invoice date. Of the 225 transactions reviewed, 168 of the transactions totaling $274,705, had an order date or invoice date prior to the date that the PO was filled out and for two transactions totaling $17,575, a PO was never obtained.

According to EPS's Director of Maintenance, many of the expenditures made by the Maintenance Department are emergency situations where the department does not have time to obtain the required POs before the purchase. However, there was no documentation in EPS files, relative to the transactions in our sample, that indicated that any of the purchases we reviewed were emergency situations and in fact, very few of the transactions we tested appeared to be of an emergency nature. For example, included in the procurements for which POs were obtained after the procurement was made, were six invoices, three in June 2002 totaling $2,105 and three in June 2003 for $2,047 for graduation flowers and two invoices in August 2003 totaling $1,500 for window shades.

Recommendation

In order to address our concerns relative to this matter, we recommend that EPS take the measures necessary to ensure that all expenditures for maintenance related items are conducted in accordance with applicable state laws and city ordinances. At a minimum, quotes for services should be independently verified periodically and all procurements for goods and services should be monitored by the City Auditor and Purchasing Department to ensure that improper activities such as non-competitive procurements and bid splitting are not being conducted and that necessary budgetary controls are in place to account for and control spending.

2. INADEQUATE CONTROLS OVER THE CITY'S BUDGETARY PROCESS RESULTING IN THE OVERSPENDING OF OVER $1.2 MILLION IN CITY-FUNDED EPS ACCOUNTS

We found that the city and EPS have not implemented adequate controls over their budgeting activities. For example, the city and EPS do not have formal written policies and procedures relative to

their budgetary process. Also, the budgetary tracking and reporting arrangements employed by EPS are inadequate. Until the city's January 2004 implementation of a budget tracking process, neither the accounting system used by the city nor the one used by EPS provided an overspending alert until an expenditure transaction was entered that placed an account in a deficit position. However EPS continued to overspend certain accounts even after implementation of the city tracking process. Even when accounts are in deficit positions, EPS continues to process expenditures from the accounts once approvals have been secured from the Superintendent or Associate Superintendent without notifying or securing further approval by the School Committee. As a result of these and other internal budgetary control deficiencies, we found problems with EPS's budgeting activities during the conduct of our audit. Specifically contrary to state law, EPS overspent its city-appropriated funding amounts during fiscal years 2001 through 2004 by over $1.2 million. These budgetary deficits we paid for with tax levies without the required certifications and approvals by the City Council.

As noted in the Background section of this report, EPS, in conjunction with the city, is responsible for budgeting over $40 million in funds to cover Net School Spending costs. EPS is also responsible for budgetary control over approximately $7 million in expenditures annually involving non-city funded accounts such as state grants and monies it receives in its cafeteria related activities.

During our audit, we first assessed the system of internal controls the city and EPS, had established over their budgetary process and noted the following problems:

- There were no formal written policies and procedures relative to the budgetary processes being utilized by either the city or EPS.

- The proposed EPS budget, is developed by EPS staff using different cost centers than those used in the city's accounting system, which uses software developed by VADAR (see Audit result No. 8). For example, there are many payroll accounts in EPS budget, yet only five accounts in the city's VADAR accounting system. For users of the VADAR system, this makes comparing budget to actual expenditures or the prior year budget to actual expenditures extremely difficult for many accounts.

- EPS does not conduct any budgetary tracking and reporting activities. Also, until January 2004, the city's and EPS's accounting systems did not provide an overspending alert until an expenditure transaction was entered that placed an account in a deficit position and, even then, over-expenditures are processed once approval has been secured from the Superintendent or Associate Superintendent. EPS also, only tracks city-funded accounts and does not adequately track several million dollars associated with grant, revolving and other special funds. As a result, there are no effective controls to prevent over-expenditures from occurring. When cost overruns are about to occur, there is no system in place to ensure that appropriate prior notice is given and approval secured from the School Committee, the Mayor and the City Council.

Since the School Committee has primary legal responsibility for EPS budget and only has authority to amend individual budget accounts up or down within the overall Net School Spending appropriation approved by the city, EPS administrators should be tracking all expenditures and securing School Committee approval for any necessary modifications to individual appropriation account expenditure limits. Where changes are desired to the overall Net School Spending appropriation limit or to budgeted appropriation limits for other accounts such as the Transportation account, established limits may not be exceeded until the School Committee has secured approval from the Mayor and City Council.

- Prior to January 2004, the city's Budget Office did not monitor EPS's budget. Rather, according to the city officials, the prior City Auditor would meet with EPS officials and obtain the total EPS budget figure. He would then give this total figure to the Budget Office and it would be included as a single line item in the city's annual budget, but no mechanisms were implemented to compare budget to actual expenditures on a routine basis.

We also found that internal budgetary controls employed by EPS managers were also inadequate. EPS utilizes its own internal accounting system using Microbudget software. The reason for this is that EPS needs to convert city-funded accounts into smaller sub-accounts for it's own internal management purposes and to meet DOE's year-end financial reporting requirements that require various expenditures to be reported in specified accounts. However, we found that EPS did not properly manage its Microbudget information, as follows:

- Although the Microbudget chart of account system used by EPS includes sub-accounts set up for the purpose of breaking out personnel costs by detailed cost centers mandated by DOE, EPS, in practice, does not make proper use of the sub-accounting system. For example, DOE mandates that all personnel costs be classified into one of 75 detailed personnel categories designed to standardize school district reporting to DOE so that the department can ensure that the each school district meets its Net School Spending requirements. However, EPS only enters personnel cost data on a consolidated basis within the major EPS School Committee appropriation accounts: Central Administration, Instructional Salary, Special Education Salary, and Maintenance & Custodial Salary. This is because EPS clerk responsible for making entries into the Mircobudget system, only receives lumped sum payroll information from EPS staff responsible for payroll and in some instances even this consolidated data has not been provided until halfway through the fiscal year. Finally, many personnel and non-personnel expenditure entries were entered on a monthly basis rather than on a specific transaction date basis, complicating the process of tracking amounts to underlying detail.

- Although EPS managers were regularly provided with transaction reports by staff from the City Auditor's Department for the purpose of performing the reconciliation and correction of any processing errors, substantial discrepancies arose between account balances in EPS's Microbudget accounting system and the city's accounting system. For example, for fiscal year 2003, EPS's Microbudget system understated what was recorded in three city account expenditure totals and overstated seven account totals by a net amount of $24,184 with discrepancies in individual accounts as high as $125,392.

- EPS established budget limits for each of its accounts and sub-accounts on either an individual or groups basis (e.g., for multiple telephone accounts). The personal approval by either the Superintendent or Associate Superintendent was required in order to process additional transactions once an account had a negative balance position. However, these limited controls were regularly over-ridden by senior EPS management. For example, during fiscal year 2003, EPS overspent 22 sub-accounts. For eight of these 22 sub-accounts, the 2004 budgeted amounts were actually reduced despite the fact the amounts established for the prior year had apparently been inadequate. EPS then did not reduce spending in the eight sub-accounts and overspent them by $674,557 during 2004.

- For some activities such as grants involving both personnel and non-personnel costs, single accounts were used that grouped both of these costs together, effectively precluding an analysis of overall personnel costs for the system.

Internal control problems within the city's budgeting process have also been identified by the city's private accounting firm. For example, a management letter from the city's private accounting firm to the city, dated September 6, 2002, stated in part:

> *The City prepares an annual budget, but it appears that the budget is not regularly reviewed and compared to actual results. For fiscal years ended June 30, 2002, and 2001, School Department expenditures have exceeded appropriations by approximately $250,000 and $270,000, respectively. Unless budgets are for motivational purposes only, they are not useful if they are not compared to actual results.*

Based on this problem, the city's private accounting firm recommended the following:

> *We recommend that the actual results of operations be compared to the budgeted amounts monthly, and any large discrepancies should be investigated and explained so that necessary corrective action can be considered. These analyses should be included in the monthly reports to the Mayor and City Counsel [sic] to help them understand the financial results and their implications and to help make informed decisions.*

In response to this concern raised by its private accounting firm, the city provided the following comments:

> *The School Department will continue to reconcile its expenditures with the City Auditor's Office monthly. Presently, any and all discrepancies are discussed via E-mail and telephone and are reconciled.*

As a result of the internal control deficiencies detailed above, the city and EPS have experienced problems over the past few years in their budgetary process, as indicated below:

a. Overspending approximately $1.2 Million in Unbudgeted Funds and Not Obtaining Proper Authorization Relative to the Payment of these Unbudgeted Expenses

As a department of city government, EPS is required to adhere to the provisions of municipal finance law set forth in Chapter 44 of the Massachusetts General Laws. Section 31 of this statute,

mandates use of what is essentially a "line item" budgeting approach and expressly prohibits budget overruns by stating, in part:

> *No department financed by municipal revenue, or in whole or in part by taxation, of any city or town, except Boston, shall incur a liability in excess of the appropriation made for the use of such department, each item recommended by the mayor and voted by the council in cities, and each item voted by the town meeting in towns, being considered as a separate appropriation, except in cases of major disaster, including, but not limited to, flood, drought, fire, hurricane, earthquake, storm or other catastrophe, whether natural or otherwise, which poses an immediate threat to the health or safety of persons or property, and then only by a vote in a city of two-thirds of the members of the city council, and in a town by a majority vote of all the selectmen.*

The state Department of Revenue (DOR) alerts city officials to this prohibition on overspending budgeted amounts in its Guide to Municipal Accounting for Town Officials. In a section entitled, "What Are the Statutory Duties and Responsibilities of Local and School Officials With Legal Responsibilities for Fiscal Control and Oversight of the School Budget?" this Guide states, in part:

> *In addition to outlining the specific fiscal responsibilities of local and school officials in overseeing school department expenditures, the general laws also explicitly state that municipal officials are criminally liable for knowingly incurring expenditures in excess of appropriations. All municipal officers may be fined or imprisoned for knowingly violating these provisions of the General Laws.*

Despite these statutory requirements, we found that during fiscal years 2001 through 2004, EPS overspent its budget in total by approximately, $270,000, $250,000, $161,000, and $519,000, respectively. The table below summarizes by line item the variances between budgeted and actual expenses for EPS during fiscal years 2002 through 2004.

City-Funded School Department Operating Accounts*

	Fiscal Year 2002			Fiscal Year 2003			Fiscal Year 2004		
Account	Budgeted	Actual	Variance	Budgeted	Actual	Variance	Budgeted	Actual	Variance
Salaries-Central Administration	$1,513,925	$1,580,009	$66,084	$1,029,582	$1,420,272	$390,690	$ 920,296	$1,294,349	$374,053
Central Administration-Misc Exp	452,000	422,812	(29,188)	410,000	488,505	78,505	363,000	503,720	140,720
Total Central Administration	$1,965,925	$2,002,821	$36,896	$1,439,582	$1,908,777	$469,195	$1,283,296	$1,798,069	$514,773
Salaries-Instructional	$19,932,205	$19,848,491	$(83,714)	$20,541,414	$19,507,959	$(1,033,455)	$19,360,298	$19,261,778	$(98,520)
Education Exp-Instructional	1,250,000	971,149	(278,851)	1,103,500	630,261	(473,239)	548,500	452,278	(96,222)
Instructional-Special Exp	447,000	320,751	(126,249)	458,000	266,184	(191,816)	338,000	223,238	(114,762)
Total Instructional	$21,629,205	$21,140,391	$(488,814)	$22,102,914	$20,404,404	$(1,698,510)	$20,246,798	$19,937,294	$(309,504)
Salaries-Special Education	$3,346,886	$3,264,075	$(82,811)	$2,881,986	$3,358,986	$477,000	$3,148,183	$3,664,504	$516,321
Education Exp-Special Ed	269,000	75,916	(193,084)	213,000	246,674	33,674	197,000	264,469	67,469
Tuition-Special Education	3,260,000	4,207,254	947,254	3,700,000	4,113,543	413,543	4,100,000	3,595,993	(504,007)
Total Special Education	$6,875,886	$7,547,245	$671,359	$6,794,986	$7,719,203	$924,217	$7,445,183	$7,524,966	$ 79,783
School Athletics-Misc Exp	$ 198,000	$ 361,715	$163,715	$ 267,280	$ 423,030	$155,750	$ 200,000	$ 194,912	$ (5,088)
Salaries-Maintenance & Custodial	$1,090,984	$1,084,144	$ (6,840)	$ 782,518	$ 938,782	$ 156,264	$ 632,723	$ 636,156	$ 3,433
Misc Other Exp-Maintenance & Cust	720,000	711,083	(8,917)	970,000	673,693	(296,307)	608,000	586,912	(21,088)
Water & Sewer	75,000	62,519	(12,481)	85,000	93,703	8,703	85,000	107,899	22,899
Gasoline & Oil	210,000	108,461	(101,539)	100,000	209,091	109,091	90,000	42,344	(47,656)
Electricity & Gas	700,000	540,513	(159,487)	940,000	620,799	(319,201)	800,000	1,025,548	225,548
Total Maintenance and Custodial	$2,795,984	$2,506,720	$(289,264)	$2,877,518	$2,536,068	$(341,450)	$2,215,723	$2,398,859	$183,136
Student Handbooks	$10,000	$17,386	$7,386	$10,000	$35,092	$25,092	$9,000	$13,958	$4,958
Year End Encumbrances	-	15,536	15,536	-	54,727	54,727	Included in individual accounts		
Total Net School Spending Accounts	$33,475,000	$33,591,814	$116,814	$33,492,280	$33,081,301	$(410,979)	$31,400,000	$31,868,058	$468,058
Transportation-Special Ed	1,025,000	1,158,954	133,954	1,025,000	1,597,197	572,197	1,600,000	1,650,993	50,993
Total NSS plus Transportation	$34,500,000	$34,750,768	$250,768	$34,517,280	$34,678,498	$161,218	$33,000,000	$33,519,051	$519,051

*Totals may vary from EPS financial records due to rounding.

Some significant variances identified in the table above include, during the last three fiscal years, EPS has exceeded its budgeted amounts for Central Administration by an average of $340,288 but has under spent in the Instructional area by an average of $832,289. Also, while it may be difficult to forecast and accurately budget some EPS expenses such as those dealing with variable Special Education services, other expenses, which should be easy to estimate such as Central Administration Salaries, were significantly overspent by as much as 40% of their budgeted amounts.

Chapter 44, Section 64, of the General Laws governs the payment approval process to be followed when budget overruns occur, by stating:

> *Any town or city having unpaid bills of previous fiscal years which may be legally unenforceable due to the insufficiency of an appropriation in the year in which such bills were incurred may, in the case of a town, at an annual meeting by a four fifths vote, or at a special meeting by a nine tenths vote, of the voters present and voting at a meeting duly called, and, in the case of a city which accepts this section, by a two thirds vote of the city council, appropriate money to pay such bills; but no bill or payroll shall be approved for payment or paid from an appropriation voted under authority of this section unless and until certificates have been signed and filed with the selectmen or the city auditor, as the case may be, as hereinafter provided, stating under the penalties of perjury that the goods, materials or services for which bills have been submitted were ordered by an official or employee of the town or city and that such goods and materials were delivered and actually received by the town or city or that such services were rendered to or for the town or city, as the case may be. . .*
>
> *Every such certificate that goods, materials or services were so ordered shall be signed and filed by the official or employee of the town or city who ordered the same or, if he has ceased to be an official or employee of the town or city, by any official or employee of the town or city; every such certificate of delivery to the town or city of goods or materials shall be signed and filed by the vendor thereof or, if such vendor is a corporation, shall be signed and filed by the treasurer thereof; every such certificate that goods or materials were received by the town or city shall be signed and filed by an official or employee of the town or city; and every such certificate of services rendered to or for a town or city shall be signed and filed by the person who rendered such services.*

During our audit, we noted that the required certification and City Council[3] approval process for payments that have exceeded their budgeted amounts was implemented by the current City Auditor for EPS's fiscal year 2004 expenses. Additionally, we asked the City Auditor and City Assessor to provide us with all the documentation relative to the process that was

[3] The City Council in the City of Everett is actually comprised of a bi-cameral legislative body consisting of an upper house or "Board of Alderman" and a lower house or "Common Council".

followed to address EPS over-expenditures during fiscal years 2000 through 2003. In response, these city officials were only able to provide us with copies of letters sent from the former City Auditor to the City Assessor's office certifying appropriation and other account deficits to be paid through tax levy to subsequent years. However, these city officials told us that they could not provide us with the any individual certifications relative to the order and receipt of items required by state law in order to process payments of these items. In addition, none of the minutes of the meetings of the City Council that we reviewed documented the fact that a 2/3 vote had been made by the City Council as required by law to pay for these unbudgeted expenditures. In fact, city officials told us that this approval and certification process was not followed during the fiscal years 2001 through 2003. Rather, officials from the City Auditor's office and City Assessor's office told us that the former City Auditor had simply instructed the City Assessor's office to raise funds to cover the overruns by including these amounts in the tax levies for subsequent years and that the over-expenditures had never been disclosed to the Mayor or processed through the City Council for the required approval. If this is in fact true, these actions by the former City Auditor were not consistent with the Department of Revenue Guide to Financial Management for Town Officials, which states,

> *... the accountant [City Auditor] has the duty, whenever an appropriation has been expended or whenever the liabilities incurred appear to be in excess of the unexpended (and unencumbered) balance, to immediately notify the school committee and other school officers authorized to make expenditures and to refuse payment until funds have been provided. The accounting officer is also required to notify the executive and legislative bodies.*

During our audit, we asked the former City Auditor why the transactions had not been processed in the required manner. In response, he told us that he had advised the Mayor of the overruns and bills had been paid and the increases to tax levies had been processed despite the lack of City Council approval because the Mayor had not wanted the overruns disclosed to the City Council's Board of Aldermen. However, the former City Auditor did not provide us with any documentation to substantiate these assertions. During our audit, we also spoke with the Mayor regarding this matter and he told us that the former City Auditor in fact, had not advised him of these overspending issues.

During our audit, we observed the process the city was following to resolve it's most current budget deficit. As previously mentioned, in January 2004, a monthly budget to actual expenditure review process was implemented by the city. This process also includes the calculation of what city officials refer to as "burn rates", which is essentially tracking the cumulative year to date spending by account as a percentage of the budgeted expense for the account. For example, if $60,000 out of a $100,000 budget item has been spent by the end of December (50% of the way through the fiscal year), the computed burn rate would be 60%, leaving only 40% of the account unspent. This would indicate a potential overspending problem if spending continued at the same rate for the remainder of the year. Each month a budget report is distributed by the city Budget Director to the Superintendent along with a cover letter detailing any issues that need to be addressed. The cover letter for the January 7, 2004 report covering expenditures through December 2003, specifically noted that EPS "burn rates" in a number of accounts, including Central Administration Salaries, were far in excess of their budgeted amounts. The letter also expressed concerns that EPS would not have enough monies to get through the fiscal year and asserted that supplemental funds were not available to cover overspent line items. At this time, the Superintendent informed city officials, that these deficits would be funded by grants and other special funds. However, in April 2004, when it became apparent that there was not enough in other funds to cover these deficits, the Mayor committed, subject to approval by the City Council and the state Department of Revenue (DOR), the amount of the fiscal year 2004 Medicaid revenues[4] EPS receives in excess of $594,877. The City Auditor told us that while the city and EPS had already factored $594,877 of these Medicaid revenues into the 2004 budget, EPS officials had asserted that over $400,000 in additional Medicaid revenues would be received for fiscal year 2004 and would be available to cover any budgetary shortages. However, since Medicaid billings are submitted and tracked by EPS, city staff were unable to independently verify the representations made by EPS relative to the amount of Medicaid reimbursements that would be collected which ultimately turned out to be substantially less than that projected by EPS.

[4] The City of Everett receives reimbursement from Medicaid for certain Special Education services provided to eligible EPS students. EPS is responsible for documenting Medicaid billable activity and submitting billings to the Commonwealth. EPS uses it's affiliated Shore Educational Collaborative (see Audit Result No. 7) to administer this billing system. Upon approval by the Office of Medicaid ("MASSHealth"), payments are issued to the City Treasurer. These revenues effectively reduce the cost to taxpayers for the required local contribution to Net School Spending described in the Introduction to our report.

In August 2004, city officials determined that the city's planned use of Medicaid revenues to cover EPS deficit had been disapproved by DOR. The City Auditor also determined that the excess Medicaid revenues EPS officials said would be available were not, and that only approximately $16,000 had been received beyond the $594,877 already factored into EPS budget. Consequently, EPS then proposed to cover its fiscal year deficit by using fiscal year 2005 appropriated funds. According to EPS officials, EPS obtained an opinion from DOR's legal counsel that the proposed payment approach would be an acceptable alternative to funding the entire over-spending amount by tax increase. However, city officials told us that DOR qualified this approval stating that a separate determination should be obtained from DOE regarding the impact of this funding mechanism on compliance with fiscal year 2005 Net School Spending requirements. According to the City Auditor, DOE subsequently informed him that any fiscal year 2005 appropriations used to pay for fiscal year 2004 expenditures could not be counted toward the city's fiscal year 2005 Net School Spending requirements. Consequently, this could affect EPS's ability to comply with its fiscal year 2005 Net School Spending requirements.

As of the end of our audit field work, the City Auditor told us that the Mayor, Superintendent, and the finance sub-committee of the School Committee had reached an agreement to utilize a modified approach where funds already reserved to pay negotiated teacher salary increases in fiscal year 2005, would be used to pay the fiscal year 2004 over-expenditures. EPS would then pay for the salary increases, with the Medicaid revenues it receives during fiscal year 2005. However, as of the end of our audit field work, the City Auditor told us that he had still not received documentation he had requested from EPS for the purpose of confirming that sufficient Medicaid billings would be generated to successfully implement the plan.

b. Factors Affecting Budgetary Overruns

In addition to the internal control problems relative to the budgetary process previously discussed, we also noted other operational problems that contributed to EPS's budgetary problems, as follows:

Not Accurately Accounting for All Known Personnel Expenses In the Budgetary Process

EPS budget documents include detailed schedules identifying each employee and their associated projected salary costs for the coming year. The detailed schedules for the Central Administration Salaries account have consistently omitted approximately a dozen individuals each year and their associated salaries totaling in excess of $350,000 annually as follows:

Fiscal Year	Omitted Employees	Associated Salary
2003	13	$384,895
2004	12	$364,353

This problem continued into fiscal year 2005, where we identified approximately 12 positions on EPS's Central Administrative payroll that had not been included in the fiscal year 2005 budget. These unbudgeted positions included both clerical staff and managerial positions involving individuals who had been working in these positions for multiple years including, a Payroll Officer paid in excess of $50,000 per year; a Public Relations Director, also paid in excess of $50,000 per year; and a Supervisor of Attendance paid in excess of $36,000 per year. Our review of payrolls for other accounts identified similar issues including the omission in the budget of multiple positions in the Maintenance Department and as well as Special Education Personnel.

Regarding this matter, EPS officials told us that the city and the Mayor essentially give EPS a bottom line budget figure based on the city's Net School Spending requirements. EPS officials stated that they then take this bottom line figure and generate a budget that agrees with this specified amount. Theses officials added that they routinely need to exclude various staff positions from their proposed budget so that they do not exceed this bottom line amount. However, they added that they are able to ultimately pay for these unbudgeted positions when monies become available from teachers who are included in the budget, retire or obtain employment elsewhere.

However, this practice of not budgeting all the known EPS staff that will be compensated with city funds is misleading and denies the City Council, the Mayor and the School

Committee the accurate and complete information they needs to properly review, approve and/or amend EPS's budget.

Oversight by The School Committee Needs Improvement

The Everett School Committee has the discretion and responsibility under Chapter 71 of the General Laws to monitor EPS expenditures and to take actions to increase appropriation limits for individual accounts as long as offsetting reductions were made to other accounts so that the overall combined appropriation total established by the City Council was not exceeded. During our audit, we reviewed the documented activities conducted by the School Committee during the period January 2002 through June 2004, to ensure the integrity of EPS budgetary process and noted a number of issues, as follows:

- The minutes of the School Committee meetings that we reviewed did not indicate any substantial discussion of budget proposals, rarely documenting more than the simple fact that annual budgets had been approved as proposed by management. The minutes did reference overspending in the city Transportation account and in a non-city-funded Community Partnership grant account, however we did not find any references in these minutes to the overall annual overspending issues or resulting increases to following year tax levies.

- There was no documentation to substantiate that budget to actual reviews by the School Committee were taking place. As previously stated, the City Auditor implemented new budgetary controls including budget to actual comparisons in January 2004. However, when we interviewed the School Committee Chairperson in February 2005, over a year after this budget to actual review process had been implemented, the Chairperson appeared to be unaware of the process and complained to us that the School Committee does not receive any reports from city officials detailing what has been spent year-to-date; does not get any feedback on when bills are paid; and, more specifically, never receives any reports from the city Budget Office.

- According to the minutes of the meetings, funding transfers between existing appropriation accounts were rarely discussed or approved by the School Committee. During fiscal year 2003, no adjustments to appropriation account limits were processed by the School Committee, despite that fact that 11 of EPS's 16 regular operating accounts were overspent by year-end.

- EPS's fiscal year 2004 proposed budget that it presented to the School Committee, and the city, included a column entitled "FY2003 REVISED" budget appropriation amounts. This column detailed significant changes in actual fiscal year 2003 EPS expenditures such as the increase in Central Administration salaries from $1,029,582 to $1,437,425 and Maintenance and Custodial salaries from $782,518 to $1,004,806. These increases were offset by Instructional salary reductions. However, School Committee

minutes did not indicate that these significant budget revisions for fiscal year 2003 were discussed by the School Committee.

- On June 17, 2002 the School Committee did amend the fiscal year 2002 budget, transferring $1,185,000 from Instructional Salaries, Instructional General and Special Expense accounts, and from the Maintenance Miscellaneous Expense account to cover over-expenditures in Central Administration, Special Education and Maintenance salary accounts, increasing those accounts by the following amounts:

Account	Increase
Salaries-Central Administration	$435,000
Salaries-Special Education	$450,000
Salaries-Maintenance & Custodial	$300,000

The increases to these appropriations effectively reduced what would have been a $501,084 over-expenditure on Administrative Salaries to $66,084 for fiscal year 2002. Despite these substantial changes in these expense categories, EPS and the School Committee did not make appropriate budgetary adjustments for fiscal years 2003 and 2004 and continued to incur cost overruns in these accounts.

Inadequate Monitoring of Purchased Items

As detailed in Audit Result No. 8, the city's accounting system does not integrate PO information into its general ledger. Approximately $11 million per year in vendor expenses are recorded in their accounting system at the time that payments are made, which is often several months after the obligations had been incurred by ordering goods and services. Since EPS managers don't track and project the impact of these purchases and report the true level of obligations incurred by it to city staff, the full extent of EPS spending is unknown to the City Auditor and Budget Director until EPS submits its year end invoice and accounts payable information to the city. By then, it was too late to take action to prevent over expenditures and the city has effectively no alternative but to cover EPS's over spending. For example, the end of fiscal year 2004, EPS submitted over $272,000 in final year-end encumbrances and $333,000 in bills payable for city-funded accounts when only $86,000 remained in appropriations available to cover these expenses.

Recommendation

In order to address our concerns relative to these matters, we recommend that the city in conjunction with EPS, immediately take measures to ensure that they implement adequate internal controls over all aspects of their budgetary process. These controls should include the city providing to the Everett School Committee monthly budget status reports to monitor

school spending. All controls systems and procedures should be documented and staff should receive training to ensure that they are aware of any new policies and procedures that are implemented. In the future, EPS should take measures to ensure that it fully complies with the requirements of applicable laws and city ordinances when dealing with budgetary issues. In order to affect proper control over the budgeting process, EPS should also, annually develop a comprehensive budget package that accurately details all anticipated revenues, identifies funds available from non-city sources and anticipated expenses. In our opinion, a properly compiled budget package should include:

- Full background information and discussions on all significant issues related to the budget including; the fiscal environment, long and short term objectives, present and future year budget goals, enrollment and staffing projections, changes in significant cost factors, review and approval timeframes, etc.
- Chart of Account and Glossary information together with fully detailed multi-year comparative budget to actual revenue and expenditure information down to sub-account detail for all reporting centers and accounts including non-city funded revolving, grant and other special accounts,
- Detailed analysis and projections for Special Education costs and revenues, and
- Detailed information on capital budget issues, facility improvement plans and extraordinary maintenance needs.

3. QUESTIONABLE PERSONNEL PRACTICES

We found that during our audit period, EPS engaged in several questionable personnel activities. Specifically, EPS routinely lays off all newly hired teachers at the end of each school year regardless of the actual number of layoffs warranted by projected budgetary shortfalls. For each of the past three years, over 200 staff, approximately 160 of which are teachers, have been laid off even though the vast majority of these have been rehired at the start of the following year. This practice is contrary to the provisions of Chapter 71, Section 42, of the General Laws, which permits layoffs only in those instances where there is declining enrollment or other legitimate budgetary concerns. Additionally, this practice of routinely laying off all non-tenured teachers may encourage the licensed teachers to seek employment in other school districts. In fact, we found that many of the newly hired, teachers who had obtained the highest level of licensure (8 of the 16 hired or 50%) are leaving EPS within the first two years of being hired.

We also found that for fiscal year 2004, over 66% of EPS's $89,016 expenditures for tutoring, were in fact expended for non-tutoring activity such as setting-up for the homecoming parade, security work, data-processing, various painting projects including a City of Champions banner, sandwich board for Everett Stadium and the lettering of football team helmets. We also noted that during fiscal years 2002 and 2003, tutoring funds were used for some non-tutoring activities such as lettering motorcycles for the police department, and sign painting including the painting of signs for a church. By not spending this money on tutoring activities, EPS may be denying some students the opportunity to improve their academic performance.

Additionally, we found that, contrary to city ordinances, EPS settled one claim and was in the process of settling a second claim against EPS staff without the knowledge and/or approval of the City Solicitor. Also, we found one instance where EPS did not fully address a problem identified by Education Management Accountability Board (EMAB). Specifically, in 1999, an EMAB review noted that the Superintendent's employment contract as well as the contracts involving other EPS administrators did not provide the School Committee with a means to terminate the agreement early if the annual evaluation or other events led the Committee to conclude that there was good cause for termination. Finally, our review of personnel files revealed a number of problems including missing job applications, resumes, job descriptions, educator licensure documentation and in many instances, layoff and rehire documentation.

a. Questionable Lay-off Practices

EPS regularly lays off all employees at the end of each school year during their first three years of employment. For each of the past three years, lay off notices have been sent to over 200 employees each spring. The vast majority of these employees, approximately 160, are teachers subject to statutory employment protections provided by Chapter 71, Section 42, of the General Laws, which includes the following provisions:

> *A teacher who has been teaching in a school system for at least ninety calendar days shall not be dismissed unless he has been furnished with written notice of intent to dismiss and with an explanation of the grounds for the dismissal in sufficient detail to permit the teacher to respond and documents relating to the grounds for dismissal, and, if he so requests, has been given a reasonable opportunity within ten school days after receiving such written notice to review the decision with the principal or superintendent, as the case may be, and to present information pertaining to the basis for the decision and to the teacher's status. The teacher receiving such notice may be represented by an attorney or other representative at such a meeting with the principal or superintendent. Teachers without professional teacher status shall*

> *otherwise be deemed employees at will…"Neither this section nor section forty-one shall affect the right of a superintendent to lay off teachers pursuant to reductions in force or reorganization resulting from declining enrollment or other budgetary reasons."*

As noted above, lay-offs without the due process described above, are permissible if they are in fact, associated with declining enrollment or for other budgetary reasons. However, we found that the significant annual staff lay-offs imposed by EPS, are not directly based on enrollment or budgetary projections. This is evidenced by the following:

- Lay-off notices are routinely sent to all newly hired teachers during their first three years of employment as opposed to a specific group of teachers that need to be laid-off based on a projected budget deficiency amount. The vast majority of these teachers (over 70%) are hired back indicating that there was no real budgetary need for their temporary termination.

- Lay-off notices have typically been sent by EPS to teachers in the spring (e.g., March), well before the legal deadline for sending these notices (June 15) and before any deficiencies in state aid have been projected by the city and the School Committee as part of a budget development process. EPS officials told us that these massive lay-offs are required since state budgets are rarely enacted prior to June 15 and it is possible that no state aid will be received by the city. However, this concern is unfounded, since state funding to EPS has only decreased once during the last seven years, during fiscal year 2004, and this was only by 3.8%. During fiscal year 2005, the state funding provided to EPS actually increased by approximately 16.04%.

- Lay-off notices have also typically been sent out well before the School Committee has finalized it's budget request to the city, which typically occurs in May, and well before final city budget enactment (usually in June).

During our audit, we spoke with an Associate Commissioner of DOE and the DOE School Business Services Administrator regarding EPS lay-off practices. These officials told us that this lay-off approach is unusual, and to his knowledge, most school districts wait until the last minute to lay-off teachers and only lay off staff based on projected budgetary shortfalls. These officials added that DOE provides extensive information to local school districts throughout the state budgeting process regarding anticipated state funding levels. DOE officials also told us, that information included in both the executive branch and legislative versions of the proposed state budgets generally provides a sufficient basis for local school districts to make reasonable estimates of any likely changes in state educational aid levels early on in their own budgetary process.

In our opinion, the process of laying off all newly hired teachers in this manner is not only contrary to Chapter 71 of the General Laws, but may also encourage qualified (e.g., licensed) teachers to seek employment in other school districts where they will not have to face the uncertainties of unemployment posed by EPS's lay-off practices. In fact, EPS's Associate Superintendent acknowledged that these lay-off arrangements cause many newly hired teachers to seek employment elsewhere, necessitating the hiring of anywhere from 30 to 70 new teachers each year. The Associate Superintendent admitted that the increased turnover associated with this practice creates continuity and recruitment problems for the district. The Associate Superintendent also told us that while the layoff notices sent to teachers each year state that the reason for the layoffs is uncertainty regarding the amount of state aid for the following year, they are also used as a means of terminating undesirable employees.

During our audit, we attempted to quantify to what extent EPS's lay-off practices are affecting the retention of newly hired teachers. However, as detailed later on in this audit result, in many instances, the personnel records for teachers being maintained by EPS were incomplete which impaired our ability to complete our analysis. Specifically, documentation was generally absent from individual personnel files and we noted inaccuracies and inconsistencies between different versions of lay-off and re-hire lists provided to us. For example, laid-off employees sometimes appeared on payrolls for the following year despite not being listed on re-hire lists. In other cases, lay-off letters were found in personnel files of employees who did not appear on lay-off lists. As a result, we could only determine the number of known laid-off employees who had actually returned on EPS's payroll for the following year as follows:

	Number Laid* Off	Did Not Return Next School Year*	Percentage Laid Off Who Did Not Return
Fiscal Year 2002 Year End Lay-offs	324	72	22.2%
Fiscal Year 2003 Year End Lay-offs	162	43	26.5%
Fiscal Year 2004 Year End Lay-offs	160	33	20.6%

* Fiscal years 2003 and 2004 include teachers only. All figures exclude retirees and others who were not laid off but left employment for other reasons.

We also analyzed the licensure and certification status of returning and non-returning teachers who had been hired for the start of fiscal years 2003 and 2004 and then laid-off. The results of our analysis in this area is as follows:

Fiscal Year Hired	Number Hired for the start of the School Year*	Number Hired with Standard Licenses (highest level of licensure)	Number Gone by Fiscal Year 2005	Number with Standard Licenses Gone by Fiscal Year 2005	Number with less than Standard Licenses Gone by Fiscal Year 2005
2003	40	10 (25%)	21 (52.5%)	5 (50%)	16 (53.3%)
2004	28	6 (21.4%)	6 (21.4%)	3 (50%)	3 (13.6%)
Total	68	16 (23.5%)	27 (39.7%)	8 (50%)	19 (36.5%)

*This analysis excluded teachers hired after the start of each year.

As can be seen in the table above, these statistics indicate that EPS's existing lay-off practices may be contributing to a significant turnover problem, particularly for the most qualified teachers, 50% of whom are leaving within the first two years of being hired. This may become a more significant problem by the end of fiscal year 2006 when EPS is mandated to meet the requirements of the education reform provisions of the federal No Child Left Behind Act of 2001. This act requires that all students be taught by highly qualified or licensed teachers.

As an example of the effect these lay-off practices may have on educators, in one instance, a licensed teacher who was concerned about various issues within EPS including EPS layoff practices resigned in late October 2002 after working only two months in the High School English Department. In addition to complaining about various curriculum issues, she also stated:

> *When I objected to … I received the response that I was inexperienced, and then I was told that if I didn't like it here, I should leave. I was also reminded that other teachers who didn't cooperate in the past were not rehired for their following year. Given this information, it doesn't seem logical for me to remain on staff for the entire year.*

b. Misuse of Tutor Payroll

EPS maintains a distinct Payroll Department for expenditures for tutors who are to be used to assist students preparing for the Commonwealth's Massachusetts Comprehensive Assessment System (MCAS) tests. For fiscal year 2003, the tutor payroll totaled approximately $87,000 for fiscal year 2004, it totaled $89,016 covering payments to 39

different individuals. We initially tested payments to 5 individuals accounting for $42,060 of the fiscal year 2004 expenditures (47.2%). We found that only $12,210 (29%) of the payments, all paid to a single individual, were actually associated with tutoring. The remainder were for unrelated services such as security work, nursing staff, sign painting and similar after hour services provided by a vocational teacher/classmaster. These last services, totaling $9,750 were non-academic in nature and were associated with athletic events and non-school/non-educational related activity such as various painting projects including a City of Champions banner, sandwich board for Everett Stadium and the lettering of football team helmets. We expanded our testing to cover all tutor payroll expenditures for fiscal year 2004. In addition to the unrelated activity payments noted in our initial sample, we noted additional non-tutoring payments for activities such as the services of the Director of Attendance ($17,150) and a variety of smaller payments for data-processing, Special Education Individual Educational Plan translation services, set-up work for football homecoming and similar events. The table below summarizes the results of our testing in this area for fiscal year 2004.

	Hours	Number of Individuals Paid	Amount
Tutoring Related Services	893	20	$30,053
Unrelated Activity	Unrecorded for many payments	20	$58,963
Total		39 unduplicated*	$89,016

*One individual was paid for both tutoring and non-tutoring services.

EPS officials did not comment as to why they were using these for payroll funds in this manner. We also noted that during fiscal year 2003, some tutoring funds were used for non-school related activities such as lettering motorcycles for the police department and painting signs for a church.

c. Failure to fully address an administrative problem identified by the Education Management Accountability Board

In February 1997, the Governor executed Executive Order 393 that established the Education Management Accountability Board (EMAB). The Secretary of the state's Executive Office of Administration and Finance is the Chief of Staff of the EMAB and it is composed of auditors from the state's Department of Revenue, Division of Local Services who work in consultation with the State Auditor and the Commissioner of DOE. The

purpose of the EMAB is to review, investigate and report on expenditures of funds by school districts to ensure that they are consistent with the goals of improving student achievement. Between May and July 1999, EMAB conducted a review of EPS. As a result of this review, the EMAB noted one issue within the administration of EPS, which we found still exited during our audit of EPS. Specifically, in its report, the EMAB noted: "The employment contract [Superintendent] does not, however, provide the School Committee with a means to terminate the agreement early if the annual evaluation or other events led the committee to conclude that there was good cause for termination." Similar concerns were expressed regarding the contracts with other senior managers at the School Department. We found that this deficiency remained unaddressed over five years later despite the fact that the contracts with the Superintendent and other senior managers such as the Assistant Superintendent that had been identified being deficient in this area in 1999, had expired and new contracts had been negotiated in 2002. In addition to lacking appropriate termination provisions, the contracts also did not provide for suspension as permitted by Chapter 268A, Section 25, of the General Laws for the Superintendent and by Chapter 71, Section 42D, of the General Laws for other district employees. In the event that cause is found to suspend or terminate any of these employees, not including appropriate language in employment contracts could potentially result in significant legal issues and unwarranted costs for the school system. When we asked EPS's attorney responsible for drafting the contracts why the contract deficiency had not been addressed, he stated that he had never been told about the EMAB findings.

Regarding this matter, EPS's attorney told us that he was unaware of this EMBA concern when he was asked to draft contract documents for these individuals.

d. Improperly handled employee misconduct and discrimination complaints

Chapter 2, section 2-49 of city ordinances authorizes the City Solicitor, with the approval of the Mayor, to "settle or compromise any and all claims against the city." Section 2-50 of these ordinances expressly prohibits payments for additional or substitute counsel without the approval of the Mayor and City Council and Section 2-48, sets forth the powers and duties of the City Solicitor by stating "… He shall commence and prosecute all actions and other legal proceedings and suits begun by the city or by any officer thereof, and defend all actions and

suits brought against the city in any court or other tribunal of the Commonwealth or of the United States." Despite this requirement, we found two instances where EPS had settled or was in the process of settling claims involving EPS staff without the knowledge and/or approval of the City Solicitor, as follows:

- During fiscal year 2003, a $25,000 settlement payment was made directly by EPS to a former teacher. This individual was paid as a vendor as opposed to being paid through EPS payroll system. However, this $25,000 expense was subsequently charged by EPS to its payroll appropriation account. According to EPS records, this settlement had been reached in response to allegations by the employee that the School Department had improperly handled allegations made against him. The teacher left his employment with the district as part of the settlement. This settlement agreement was directly executed by the School Department with the assistance of the School Committee's contracted attorney and submitted to the former City Auditor for payment processing through the payroll account without going through the City Solicitor as mandated by city ordinances. Regarding this matter, the City Solicitor told us that about this settlement he stated that he was unaware of this settlement, that he had not been contacted about it and had not authorized it, and he noted that payment through the payroll account was improper since all settlements and claims are required to be paid through separate accounts established through his office by the City Council for that purpose. The Associate Superintendent told us that the settlement had been handled in this manner in order to keep this matter confidential.

- We identified an additional currently pending discrimination complaint against EPS by an out-of-state teacher job applicant who was denied employment by the district. The matter has been handled entirely by the School Department's contracted attorney without notice to the City Solicitor or approval by his office. The City Solicitor stated that he had only become aware of this claim against the city by accident when an attorney for the complainant contacted the City Solicitor for information, assuming that the City Solicitor's office had knowledge of the case.

e. Improperly Authorized Consultant Services Provided by the Former City Auditor

Everett's former City Auditor retired in December 2003. However, in December 2003, he started to provide consulting services to EPS on such matters as completion of the fiscal year 2003 DOE End of Year Pupil and Financial Report and participation in EPS meetings with city and State officials. Later, in the spring of 2004 he also represented EPS in discussions with the state regarding Medicaid reimbursement issues and continued to attend School Department meetings with city officials. The following is a summary of the compensation provided to this individual, doing our audit period:

Date Paid	Hours Worked	Gross Pay
10/7/2004	25	$ 1,275
10/28/2004	74.5	3,725
12/9/2004	54	2,800
12/16/2004	50	2,500
Total	203.5	$10,300

Based on our review of the documentation EPS was maintaining relative to the services provided by this individual we noted several problems. First, the contract for his services was executed with the approval of the School Committee but without prior review or approval by city officials. Also, this contract was not effective until July 1, 2004, which was over six months after the individual had started providing services to EPS. Finally, this individual's contract, which provided for payment at $50 per hour for unspecified financial consulting services, was held by the city for review due to concerns regarding its apparently belated execution and procurement on a no-bid basis in violation of city ordinances. However, without first resolving the contract issues raised by the city regarding this contract, EPS placed the former City Auditor on the clerical staff payroll as a temporary part-time employee being paid $50 per hour.

Regarding this matter, the former City Auditor told us that in his opinion, he was properly classified as an employee rather than an independent consultant. He also asserted that he had not taken compensation for services performed for EPS from December 2003 through June 2004 due to the School Department's financial situation. Regarding this matter, EPS officials told us that at the time he was leaving, the former City Auditor made it clear that his services were available and EPS took him up on his offer due to the need for his expertise.

f. Incomplete and Inadequate Personnel Records

DOE regulations 603 CMR 10.05 require that a variety of records be maintained in employee personnel files. Educators and their employers must also periodically document evaluations, training and other professional development activity. During our review of various samples of EPS personnel files, we noted a number of problems as follows:

- The Immigration Reform and Control Act of 1986 and the Immigration Act of 1990 authorized the U.S. Bureau of Citizenship and Immigration Services (formerly the Immigration and Naturalization Service) to require Form I-9, which must be completed by all employers for the purpose of verifying the identification and citizenship status of all newly hired employees. This requirement has been in effect since the act's inception in 1990. Further, city personnel policies and procedures require that this process be completed and the city's Personnel Department maintains copies of Form I-9s for all city departments except EPS. We found that EPS had ignored this long established federal requirement until August of 2004, when they first started completing Form I-9s for staff being hired for fiscal year 2005. School administrators acknowledged that the process had never been completed for any employees even though completion is required within three business days of the hire date.

- We encountered numerous instances of discrepancies between dates maintained in personnel files, internal departmental lists, and EPS's Harper payroll system. Individual's dates of hire, termination and for dates of transfers between job assignments were often missing from master personnel files. Our sample of Central Administrative Office personnel files for 74 employees disclosed that 37 files lacked job applications, 21 lacked resumes and 36 lacked employee performance evaluation documentation. In addition, our review of these files disclosed that many files lacked current job descriptions or contained out-of-date descriptions for prior positions held by the individuals. In other instances it appeared that individual's job responsibilities had been changed without adequate documentation and appropriate personnel reclassification action. For example, several individuals originally hired into teaching positions were given additional non-teaching duties such as data-processing and computer system maintenance assignments, had teaching loads reduced to part-time and were eventually performing only administrative tasks. However, their change in job status were not reflected in their personnel files. In at least two instances, individuals remained on teaching payrolls and were not transferred to administrative payrolls despite their assumption of full time administrative duties.

- EPS did not retain Internal Revenue Service Form W-4 documentation for employees and EPS officials told us that these forms had been forwarded to City Hall. However, we took a sample of 19 individuals who did not have Form W-4s on file with EPS and City Hall staff were only able to locate Form W-4s for 9 of the 19 employees.

- Employee lay-off and rehire notices were generally not filed in employee personnel files. In addition, the lists provided sometimes included conflicting and incorrect information. In numerous instances employees had been rehired and appeared on payroll records despite having been recorded on rehire lists as not being rehired. This record keeping deficiency seriously impaired our efforts to evaluate the School Department's lay-off practices and compliance with statutory and contractual requirements.

- In some instances, information regarding job status changes for staff such as maternity leave or retirement were not documented in the employees' personnel files and status information only came to our attention through direct inquiries to EPS staff.

Regarding this matter, EPS Head Clerk who is responsible for the maintenance of these records told us that she had been recently appointed to her position and could not explain why the deficiencies in the personnel files we identified existed.

Recommendation

In order to address our concerns relative to this matter, we recommend that EPS take the following actions:

- Amend its practice of laying off newly hired staff on an annual basis and only implement staff reductions based upon documented budgetary limitations or reduction in student enrollment as required by Chapter 71 of the General Laws.
- Ensure that all funding provided to it for MCAS tutoring, is used for this purpose.
- Make sure the settlement of all complaints is done in conjunction with the City Solicitor and that all legal matters are properly documented.
- Address the issue raised in the 1999 EMAB report that was still outstanding during the conduct of our audit fieldwork.
- Take measure to ensure that all employee personnel records are complete, accurate and up to date.

4. EPS IS UTILIZING UNLICENSED TEACHERS AND IS NOT ACCURATELY REPORTING THE NUMBER OF LICENSED TEACHERS TO DOE

We found a number of instances where EPS did not comply with educator licensing and certification requirements established by state law and regulations. Specifically, we reviewed the personnel files of 244 of the 588 educators on EPS's payrolls during the period July 1, 2002 through December 31, 2004 (including 66 new hires) and found licensure issues existed for 87 teachers and administrators, 69 of whom were still active on EPS payroll during the 2004-05 school year. These included: allowing unlicensed teachers to teach for prolonged periods up to seven years by classifying them as "permanent substitutes' without obtaining appropriate licensure or waiver approval from DOE and also filing inaccurate reports with DOE relative to the number of licensed teachers on staff.

Chapter 71, Section 38G, of the General Laws requires that public school district teachers and educational administrators be qualified and "certified" by DOE by stating in part:

> *No person shall be eligible for employment as a teacher, guidance counselor, director, school psychologist, school adjustment counselor, school social worker, school nurse, library media specialist, school business administrator, principal, supervisor, director, assistant superintendent of school, and superintendent of schools by a school district unless he has been granted by the commissioner a provisional, or standard certificate with respect to the type of position for which he seeks employment; provided, however, that nothing herein shall be construed to prevent a school committee from prescribing additional qualifications; and provided further, that a superintendent may upon request be exempt by the commissioner for any one school year from the requirement in this section to employ certified personnel when compliance therewith would in the opinion of the commissioner constitute a great hardship in securing teachers for that school district. During the time that such a waiver is in effect, service of an employee of a school district to whom the waiver applies shall not be counted as service in acquiring professional teacher status or other rights under section forty-one.*

In addition to having to be licensed to become employed, DOE regulations, also require teachers to teach in the areas in which they are licensed and not spend any more than 20 % of their time teaching courses unrelated to their licensed fields and grade levels. Specifically, 603 CMR 7.14 (9)(a) promulgated by DOE, states:

> *To be eligible for employment by a school district in any position covered by 603 CMR 7.00, a person must have been granted a license by the Commissioner that is appropriate for the role or be serving under an exemption according to the provisions of M. G. L. c. 71A for that role. A person holding a license may be employed for a maximum of 20% of his/her time in a role and/or at a level for which s/he does not hold a license.*

DOE has promulgated regulations (603 CMR 7.00 and 44.00) pursuant to Chapter 71, which adopt alternate terminology using terms such as "initial license" and "professional license" in lieu of the statutorily defined certification categories. With limited exceptions, such as special provisions for certain paraprofessionals and educators certified under provisions applicable to Vocational Schools, all teachers and educational administrators are required to be licensed by DOE as educators in specific areas of expertise (sometimes at specific grade levels) and to periodically document their qualifications and renew their licenses. Both individual educators and their employing school districts are required to maintain required documentation of compliance with these licensure requirements. DOE requires that districts report expenditures for licensed classroom teachers in the End of Year Pupil and Financial Reports that public schools are required to file annually with DOE.

Despite these requirements, we found several issues relative to educator licensure during our audit of EPS, which are discussed in the sections below:

a. Non-Licensure / Certification of Teachers

As noted above, Chapter 71 of the General Laws prohibits individuals from being employed as a teacher or other education professional unless they have been appropriately licensed by DOE or the school district gets a waiver from DOE. During our audit, we reviewed the personnel files and corresponding licensure documentation for approximately 244 educators out of the 588 individuals we identified as being employed by EPS during the period July 2002 through October 2004 (Payroll records for temporary substitutes and tutors were excluded.). This sample included 66 individuals newly hired for fiscal year 2005. Based on our review of these records, as well as licensure information maintained by DOE, we found 87 instances where educators had licensing issues as detailed in the table below.

Licensure Issue	New Hires for Fiscal Year 2005	Hired prior to Fiscal Year 2005	Total	Total on Payroll for Fiscal Year 2005
Not Licensed	22	28	50	40
License Expired*		2	2	2
Unregistered		1	1	1
Working in a job for which they are not licensed	1	22	23	19
Licensed per DOE but not properly documented in EPS personnel file	4	7	11	7
Total with Licensing Issues	27	60	87	69

*Although these two individuals are reported as still licensed in DOE's database, they had exceeded the five-year employment period permitted by their license.

In one instance, the Superintendent wrote to DOE seeking approval for the current full time English Department Head's application for licensure as a Supervisor/Director within a core subject to be approved. DOE subsequently granted only a non-core subject area license to this individual which means she was not authorized to be a Department Head in a core subject area, which according to DOE, includes English/language. However, this individual's personnel records did not indicate that there was any change in her status as EPS's full time English Department Head even after DOE's determination.

Regarding this matter, EPS officials told us that certain educational administrators such as High School department heads, Classmasters, Submasters and Coordinators did not require educational administrator certification by DOE. Rather, according to these officials, certification for these positions was a discretionary requirement imposed by the

Superintendent, which he could waive. However, during our audit, we spoke with DOE's Director of Licensing who told us that the assertions made by EPS officials regarding this matter were incorrect. DOE's Director of Licensing told us that DOE's licensing requirements are based on educator roles rather than formal job titles and that all educational administrators, regardless of the use of alternative titles such as "Submaster" or "Coordinator", are required to be licensed under one of the five Administrator categories established by DOE (Superintendent/Assistant Superintendent, School Principal/Assistant School Principal, Supervisor/Director, Special Education Administrator, and School Business Administrator). The Director of Licensing also told us that licensure as an educational administrator may be waived by DOE but not by the Superintendent as EPS officials contended.

b. Use of Unlicensed Substitute Teachers for Extended Periods

EPS characterizes many unlicensed teachers as "Permanent Substitutes", a classification not recognized by either DOE or the labor contracts executed by the Everett School Committee (ESC) with the Everett Teachers Association (ETA). To the contrary, the labor contracts executed between the ESC and ETA, require that teacher vacancies be filled with qualified licensed educators wherever possible and that unlicensed substitutes only be used on a temporary basis until a recruitment process can be completed and a licensed educator hired. Further, during our audit, we spoke with DOE officials who told us that the use of individuals as permanent substitutes is an unallowable practice, and that an unlicensed substitute may not be employed for the entire school year, let alone multiple school years, without first obtaining a waiver from the DOE. Despite this, we found that EPS administrators routinely hired unlicensed individuals to function as what they called "Permanent Substitutes" to work in classrooms on a multi-year basis. In fact, of the 28 individuals hired prior to Fiscal Year 2005 whom we identified as being unlicensed in our sample, 20 had been employed by EPS as "Permanent Substitutes" for over three years and the 28 had a combined total of 109 years of teaching in EPS without a license or a waiver from DOE. Of particular concern, is that when unlicensed individuals are hired, there is no documentation to substantiate that these licensing compliance issues are being disclosed to the ESC. In fact, in one instance, we found documentation in a personnel file that seemed to indicate that EPS staff had been apparently instructed to omit an unlicensed individual

hired for the start of the fiscal year 2000 school year as a permanent substitute from the new hire list provided to the School Committee.

During our audit, we attempted to analyze the extent to which EPS was using permanent substitutes. However, EPS payroll system does not identify these individuals separately as they are paid in the same manner and at the same rate as regular classroom teachers. As such, we could only comment on those permanent substitutes that appeared in our sample.

Regarding this matter, EPS Associate Superintendent told us that he did not see a need to track permanent substitute and regular classroom teacher's pay separately and that if EPS only employed licensed teachers, "there would be a lot of empty classrooms both here and in other towns." However the Associate Superintendent did not explain why EPS did not seek waivers from DOE for all educators who were either unlicensed or working outside their approved licensure area of expertise.

c. DOE Licensure Related Reporting Issues

As previously mentioned, DOE requires school districts to provide summary information related to teachers licensure to it in on an annual basis in the form of a District and School Staffing Report and an End of Year Pupil and Financial Report.

The District and School Staffing Report, is an electronically filed report adopted in October 2004 to replace a previous report known as the School System Summary Report. This report details information at the school and district level on all personnel employed in specific education or educational support assignments, including information on highly qualified teachers in the core subject areas. This information is reported to DOE on annual summary basis each October, total Full Time Equivalents (FTE), total licensed teachers, and total highly qualified teachers data for various staff, academic area and licensing categories.

Reported Data on DOE District and School Staffing Report for the Everett Public School District Fiscal Year 2004

	EPS District	State -Wide
Total Number of Teachers	366	72,062
Percentage of Teachers Licensed in Teaching Assignment	95.7	93.9
Total Number of Teachers in Core Academic Area	294	59,662
Percentage of Core Academic Teachers Identified as Highly Qualified	90.2	93.9
Student/Teacher Ratio	14.5 to 1	13.6 to 1

According to the information provided by EPS to DOE for this fiscal year, EPS has no more than 16 teachers not licensed in their teaching assignments (4.3% of 366 total teachers). However, this data is not consistent with our audit testing that EPS had at least 28 unlicensed teachers and that as many as 23 teachers and educational staff members are functioning outside their licensed areas. As a result, we question the accuracy of EPS's data in this report.

In addition to the information school districts have to provide to DOE in the District and School Staffing Report mentioned above, the DOE End of Year Pupil and Financial Report, requires school districts to report salary expenditure information for all employees by certain activity areas such as Specialist Teachers, Classroom Teachers, and various categories of educational administrators. This data is used by DOE for a variety of informational purposes such as the calculation of average teacher salaries. When reviewing the process used by EPS administrators to complete this report for fiscal years 2003 and 2004, we noted that the reported data was inconsistent with the results of our audit testing. Specifically, DOE requires in the preparation instructions it issued relative to this report, that only expenditures for properly licensed teachers be reported on the Classroom Teacher line of the report. However, we determined that EPS reports the compensation it provides to all "Permanent Substitutes" as well as classroom teachers including unlicensed ones on a consolidated basis as Classroom Teachers compensation in this report. EPS officials told us that this was because that the school district had made no provisions for separate tracking and accounting of information for permanent substitutes and other unlicensed teachers as distinct from regular licensed teachers. As a result, we were unable to determine the correct amounts for each category and can only conclude based on the results of our audit testing and our

discussions with responsible EPS officials, that the amounts expended for classroom teachers reported by EPS in its reports to DOE are clearly erroneous.

Recommendation

In order to address our concerns relative to this matter, we recommend the following:

- EPS make greater effort to utilize only licensed educators and discontinue its use of permanent substitutes. If EPS in consultation with the Everett School Committee deems it necessary to use unlicensed educators in certain positions, it should seek waivers from DOE as mandated by Chapter 71.
- EPS should take measures to ensure that it accurately reports all educator information to DOE.

5. INADEQUATE CONTROLS OVER THE ADMINISTRATION OF GRANTS

We found that EPS had not developed and implemented an adequate system of internal controls over the administration of grant funds and the authorization and payment of grant expenses. As a result, EPS did not adhere to certain federal and state grant requirements, its own grant application criteria, and to city ordinances in the processing of grant payments. For example, we found that contrary to the conditions of its grants, EPS used $830,096 in grant funding during fiscal years 2003 and 2004 to pay for the payroll costs of existing teachers as opposed to hiring new teachers as was stated in the grants, did not maintain time and attendance records relative to $2,480,212 in payroll expenses charged to grants in accordance with federal regulations. In many instances, EPS did not follow city ordinances relative to the procurement of goods and services and incorrectly recorded and reported grant expenses in EPS's financial reports.

During fiscal year 2003 and 2004, EPS received grants totaling $4,306,099 and $4,559,803 respectively from both federal and state sources through DOE (See Appendix B). As noted in Audit Result No. 8, we found that EPS has not established adequate controls over the administration of expenses including those relating to grants. As a result, during our audit, we selected eight fiscal year 2003 grants and six fiscal year 2004 grants and tested the following grant expenses: $3,489,595 of salary expenditures, $55,882 of pension expenditures, expenses relative to 17 vendor contracts totaling $424,806 and 168 transactions totaling $346,204 for various items such as supplies and travel expenses. The grants we selected for testing are as follows:

2003 Grants	2004 Grants
Federal Grants:	
Federal Special Education Entitlement	Federal Special Education Entitlement
Title IV, Part A: Safe and Drug-Free Schools and Communities	Title IV, Part A: Safe and Drug-Free Schools and Communities
Special Education Program Improvement	Title III: English Language Acquisition and Academic Achievement Program for Limited English Proficient Students
Special Education (SPED) Integration	Special Education (SPED) Program Improvement
Title II, Part A: Improving Educator Quality	Title II, Part A: Improving Educator Quality
State Grants:	
State Aid to Reduce Class Size	Community Partnerships for Children
Community Partnerships for Children	
Academic Support Services (School Year)	

Based on our review of the documentation EPS was maintaining relative to this grant funding we noted the following problems:

a. Grant Funds Totaling $830,096 were Used to Supplant Rather Than to Supplement EPS Salary and Pension Expenses

According to the conditions of both the federal and state grants that we reviewed, EPS is not allowed to use the grant funding to pay for or supplant regular school expenses. For example, the instructions issued by DOE for the federal grants entitled, Improving Educator Quality and Safe and Drug-Free Schools and Communities and the state grant entitled Academic Support Services, state, "Funds must be used to supplement, not supplant existing programs and activities in the school district." Other language contained within the grants EPS receives is even more specific and actually specifies that grant funds are to be used for specific purposes such as the hiring of new staff. For example, the 2003 State Aid to Reduce Class Size grant from DOE states: "The state class-size reduction program was established to reduce class size in grades kindergarten through three by hiring additional highly qualified teachers. "Despite these requirements, we found that in five of the grants we reviewed, grant funds totaling $830,096 were used to supplant EPS's budgeted expenses in that they were used to pay the salaries and pension fund costs of existing EPS teachers instead of hiring new teachers as EPS had indicated in its grant applications, as follows:

- According to EPS's Improving Educator Quality grant application (2002-2003 Federal Grant), "Nine teachers will be hired to reduce class size in Grade K-6."However, we found that eight of the nine teachers paid under this grant were in fact, not new hires

but had been already teaching in EPS. In fact, one of the teachers had worked for EPS since 1972, two since 2000, four since 2001 and one since January 2002. This grant was used to pay for $287,113 in salary expenses for these teachers as well as $25,840 in pension related costs. Moreover, all of the eight teachers and their respective compensation was included in EPS 2002-03 approved budget. Therefore paying these teachers' compensation with grant funds, was clearly a situation where EPS supplanted its own budgeted and approved personnel expenses with grant funds.

- According to EPS's Safe and Drug-Free Schools and Communities grant application (2002-2003 Federal Grant), "A full time Health Educator will be hired to work with all ninth grade students." However, we found that the High School Health teacher paid under this grant has worked in this position at Everett High School since 1998. This grant was used to pay $30,000 of her salary and $2,700 of her pension costs during this fiscal year. Moreover, this teacher's compensation was included in EPS 2002-03 approved budget. Therefore paying this teacher's compensation with grant funds, is clearly a situation where EPS supplanted its own budgeted and approved personnel expenses with grant funds.

- According to EPS's State Aid to Reduce Class Size grant application (2002-2003 State Grant) "Five teachers will be hired in grades K-3 to reduce class size." However, we found that three of the teachers paid under this grant had worked for EPS during the 2001-2002 school year. The grant paid $109,964 in salaries to these teachers. It should also be noted, that the Everett School Committee did not accept this grant until November 4, 2003, however, the three teachers had been working full time and were being paid under this grant since the beginning of the school year. Moreover, these three teachers' compensation was included in EPS 2001-02 approved budget. Therefore paying these teachers' compensation with grant funds, was clearly a situation where EPS supplanted its own budgeted and approved personnel expenses with grant funds.

- According to EPS's Improving Educator Quality grant application (2003-2004 Federal Grant), "Ten teachers will be hired to reduce class size in Grade K-6." EPS paid nine teachers under this grant. All of the nine teachers had been working for EPS and were not newly hired. In fact, two of the teachers had worked for EPS since 2000, five since 2001 and two since 2002. The grant paid $343,558 in salaries and $30,920 in pension fund costs associated with these teachers. Included in these salaries was a partial salary of $9,142 for one teacher. According to documents we reviewed, this amount was transferred to EPS Teachers' Salary account on June 16, 2004 after it was determined that this grant had an additional $9,142 remaining that could be reallocated to cover the some of EPS's regular personnel costs. Moreover, three of the nine teachers and their respective compensation was included in EPS 2003-04 approved budget. Therefore, paying these three teachers' compensation with grant funds, was clearly a situation where EPS supplanted its own budgeted and approved personnel expenses with grant funds.

Regarding this matter, EPS's Associate Superintendent, told us that the School Department does not feel it is using these grant funds to supplant existing school department costs

because new teachers are hired by EPS each year. However, despite the Associate Superintendent's assertion, the representations made by EPS to the federal government and the Commonwealth in requesting these grant monies, was that new teachers were going to be hired to work under these grants. As noted above, in the majority of the cases in our sample, EPS used grant funds to supplant its own expenses and pay the salary and pension costs of teachers who had already been hired and were working for EPS.

b. Time and Attendance Records for As Much As $2,480,212 in Salary Expenses Not Documented as Required by Federal Regulations

EPS receives its federal grant monies as a sub-grantee through DOE. As a sub-grantee of federal grants, EPS is required to adhere to the Office of Management and Budget (OMB) Circular A-87. According to this Circular, if grant funds are to be used to pay employees salaries and wages, sub-grantees such as EPS must maintain adequate supporting documentation of these individuals' time and attendance. This Circular requires that for employees who work full-time on a federal grant, the employees must sign at least semi-annual certifications attesting to the time they worked under the grant. For employees who work part of their time on a federal grant and the remainder of their time on a non-grant activity the employees must complete and sign what are called personnel activity reports.

According to Office of Management and Budget (OMB) Circular 87 Section 8(h):

> *Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee." … "Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on: (b) A federal award and a non-Federal award. (5) Personnel activity reports or equivalent documentation must meet the following standards: (a) they must reflect an after-the-fact distribution of the actual activity of each employee, (b) they must account for the total activity for which each employee is compensated, (c) they must be prepared at least monthly and must coincide with one or more pay periods and (d) they must be signed by the employee.*

During our audit, we reviewed the time and attendance records EPS was maintaining relative to nine federal grants that were used to pay a total of $2,480,212 in payroll expenses for EPS

employees working under these grants during fiscal years 2003($1,147,993) and 2004($1,332,219). Based on our review of this information, we determined that none of the full-time employees working under these grants signed the certifications required by OMB Circular 87. Nor did any of the part time employees working under these grants sign and maintain activity reports as required by the Circular. Also, there was no documentation that a statistical sampling system or other acceptable substitute system for EPS has been approved by the cognizant federal agency. While we do not doubt that EPS staff worked under these grants, these time and attendance documentation deficiencies made it impossible to verify the accuracy of the personnel costs charged to these grants as required by federal regulations.

Regarding this matter, EPS's Associate Superintendent the School Department told us that he was not aware that semi-annual certifications and signed time and activity reports were required by these federal grants.

c. Grant Funds Used to Pay Non-Grant Related Administrative Expenses Totaling $19,273

The state and federal grant application process requires school departments to complete a Budget Detail page as part of the grant application. Additionally, some grant applications require what is referred to as a Budget Narrative, stating specifically what the funds will be used for. We found that in the following three grants, EPS used grant money for expenses not included in their Budget Narratives for these Grants.

- 2002-2003 Improving Educator Quality Grant: EPS charged a total of $6,794 in training expenses against this grant that did not appear to be associated with the grant. For example, the training expenses paid for with this $6,794, were not identified in EPS's grant application and many teachers attending the training were not even working under the grant. Also, the total $6,794 of questionable training expenses was transferred from EPS's Central Administration account to the grant account at the end of the school year ($6,000 in June 2003 and $794 in August 2003) indicating that these expenses were originally recorded as expenses associated with general EPS activities but were subsequently allocated to the grant because funds were available.

  2003-2004 Improving Educator Grant: EPS charged a total of $4,555 in questionable training expenses against this grant. The training paid for with these funds, was not identified in EPS's application for this grant and many of the teachers were not working under the grant. This expense, billed in November 2003, was transferred from the Central Administration account to the grant account at the end of the school year (June 16, 2004).

- 2002-2003 Special Education Integration After School and Out of School Time Programs Enhanced Programs – Including Children and Youth with Disabilities: According to EPS's grant application, grant funding would be use to provide after-school tutoring to students in grades 4 to 8. However, we found $1,952 of questionable expenses as follows:

  - Two Project Adventure workshops costing $655 that were attended by an EPS guidance counselor during fiscal year 2003, were charged to this grant.

  - An outside consultant was paid a total of $1,225 to present the "MAD ABOUT MATH" program during the regular school day at the Lewis School and at the Whittier School.

  - A teacher's membership in the National Council of Teachers of Mathematics for $72 was charged to this grant.

- Special Education Program Improvement Grant (Federal Grant): 2003-2004

  - Per the grant requirements: Priorities- "The priority of this grant program is to advance the skills of personnel, including educators..." Fund Use - "Funds may not be used for ... staff salaries and/or fringe benefits or direct services or materials for students. We found $5,975 of questionable expenses. The grant instructions stated that the grant could not be used to pay staff salaries, however EPS paid $5,975 of Special Education Extended Year Summer Program payroll under the grant.

Regarding this matter, EPS did not comment on why the schools used grant funds to pay non-grant expenses.

d. Expenditures Totaling $68,235 Incorrectly Reported to DOE

The DOE Grants for Schools: Getting Them and Using Them, A Procedural Manual states: "At the conclusion of grant activities, recipients must submit a final financial report to the Department, accounting for the expenditure of funds received. Grants Management has developed a standard form (FR 1) for collecting information." The costs incurred on the grant are allocated to various line items, and are reported on form FR 1, which is submitted to DOE.

In addition to the shifting of expenses from EPS operating accounts to grant accounts previously mentioned, we also found that in five of the 14 grants tested, there were expenses totaling $68,235, that appeared to have been misreported by EPS on the "FR 1" forms it submitted to DOE. For example, expenses totaling $58,078 incurred under the 2002-2003

Special Education Entitlement Grant that it received from DOE for instructional/direct staff was reported to DOE as "contractual services".

Regarding this matter, EPS's Associate Superintendent admitted that some expenses were incorrectly reported on EPS's the FR 1 forms. He stated that in some instances, EPS reports expenses in the FR 1 under the line item where money is available as opposed to where the expenses should be reported. The Associate Superintendent agreed that original grant applications should be reviewed to ensure that the expense line items are properly budgeted, and controls should be put in place to ensure that if actual expenses exceed budgeted amounts that amendments are executed to properly account for expenses.

e. Improperly Executed Contracts Involving $439,805 of Grant Funds

Chapter 30B, Section 19, of the General Laws states; "A chief procurement officer may delegate his powers and duties in accordance with this section to one or more employee of the governmental body. A delegation shall be in writing, be signed by the chief procurement officer, and state the activity or function authorized and the duration of the delegation." The city's Chief Procurement Officer has not delegated the authority to procure goods or services to any members of EPS. Consequently, all purchases made, including those involving grant funds, must be done so with the approval of the city's Chief Procurement Officer and in compliance with the city ordinances as previously noted. Applicable city ordinances would include:

- All purchases of, and contracts for materials, equipment and contractual services…involving the sum of one thousand ($1,000.00) or more and less than twenty-five thousand dollars ($25,000) will require solicitation of at least three written quotes and will be awarded to the lowest responsible vendor that meets the purchase description and purchases over $25,000 require a formal sealed bid process.

- All contracts in excess of ten thousand dollars ($10,000.00) shall be executed in triplicate and shall, if for supplies, materials, equipment and contractual services, be signed on the part of the city by the mayor, the using agency, the purchasing agent and approved by the city solicitor as to form . . .

- The City Solicitor shall "draft all deeds, obligations, contracts, leases, conveyances, agreements and other legal instruments of whatever nature to which the city or its agents may be a party…

Based on our audit work in this area, we found that EPS awarded five contracts using grant funds totaling $51,728 in 2002-03 and $63,933 in 2003-04 to vendors where it did not adhere to all the requirements of city ordinances in that they were not executed and approved by all the required city officials. Also, we found an additional $321,488 in contracts that EPS awarded using funds it received under its 2002-03 Community Partnership for Children grant that had not been drafted by the City Solicitor or approved by all of the required city officials as specified in city ordinances.

Regarding this matter, the Associate Superintendent and the Director of Special Education, told us that they were not aware that the sections of the city ordinances which are more restrictive than Massachusetts General Law Chapter 30B, supersede Chapter 30B. The schools did not know that they were required to obtain quotes for Special Education contracts, as this is not required under Chapter 30B. These individuals also stated that they were also not aware of the city ordinance that required all contracts over $10,000 be signed by the Mayor, Chief Procurement Officer and approved to form by the City Solicitor.

f. Noncompliance with City Ordinances Relative to the Use of Purchase Orders Totaling at Least $127,174 in Expenses

Chapter 2 Section 289(b) of the city's ordinances state "Requisitions for the purchase of supplies, materials, equipment or contractual services for a department, board or commission shall be received by the purchasing department prior to the issuance of a purchase order or contract and shall be signed by the head of the using department, or his authorized agent."

During our audit, we reviewed the documentation EPS was maintaining relative to 144 expenditures EPS charged to grants during fiscal years 2003 and 2004, where a PO should have been obtained. Based on our review of this documentation, we found 31 instances totaling $86,639, where POs were never obtained and another 27 instances totaling $40,535 where goods or services were ordered or obtained prior to the PO being approved.

According to EPS's Associate Superintendent, EPS was not aware that it was required to obtain quotes for Special Education services (which constituted $86,480 of the $86,639), as this is not required under Chapter 30B of the General Laws. However, city ordinances, as cited above, clearly require that POs be obtained in these instances.

g. Teachers Were Hired for Grants Without Being Licensed or Were Not Licensed for the Subject Area Taught

As noted in Audit Result No. 4, Chapter 71, Section 38G, of the General Laws states that no individual can be hired as a teacher unless they have been licensed by DOE. Despite this requirement, we found that in the following two grants, EPS hired two individuals in addition to those detailed in Audit Result No. 4, who were not licensed and one individual who was used to teach in a subject area not covered by his license.

Fiscal Year	Grant	Teacher	License
2002-2003	Academic Support Services	Math	Business (5-12)
2002-2003	Academic Support Services	Math	No license
2003-2004	Title III, English Language Acquisition and Academic Achievement Program for Limited English Proficient Students.	ESL/Math	No license

According to the Associate Superintendent, EPS has had a difficult time hiring licensed teachers, especially in the math and science areas.

Recommendation

In order to address our concerns relative to these matters, we recommend that EPS implement controls over the administration of its grant funding to ensure that all expenses made with these funds are properly documented and are expended in compliance with applicable laws, regulation and the terms and conditions of the specific grants.

6. INADEQUATE CONTROLS OVER THE PROCESSING OF SCHOOL DEPARTMENT EXPENSES RESULTING IN HUNDREDS OF THOUSANDS OF DOLLARS IN EXPENSES NOT BEING PROPERLY PROCESSED AS WELL AS POTENTIALLY EXCESSIVE EXPENSES TOTALING $199,354

The city and EPS have not implemented adequate controls over the authorization and payment of EPS expenses. In addition, we found a number of instances where EPS did not adhere to the city ordinances and its own procedures in processing payments. As a result, in addition to the problems with EPS Maintenance Department expenses we identified in Audit Result No.1, we also found numerous problems with the other EPS expenses we reviewed. For example, we found that based on our sample of transactions contrary to city ordinances $259,333 in expenses being paid prior to the issuance of a purchase order, $79,086 in expenses being allocated to the wrong accounts, the procurement of $6,090 in services split to avoid obtaining competitive quotes, $81,258 in services procured with no quotes, $199,354 in questionable expenses that

included at least $135,115 for advertising and $64,239 for football team homecoming activities, $180,025 in potentially questionable and inadequately documented legal expenses and the failure of EPS to execute formal written contracts in accordance with city ordinances to 24 vendors for which they were required to do so.

As noted in Audit Result No. 8, we found that EPS had not established adequate controls relative to purchasing and the payment of its expenses. Consequently, during our audit, we tested 293 expenditures made by EPS from city accounts during fiscal year 2004 totaling $895,409. These expenditures did not include maintenance or grant expenses, which we tested and reported on separately in this report. Based on our review of the documentation EPS was maintaining relative to these expenses, we noted the following problems:

a. Purchases Totaling At Least $259,333 Were Made Prior To Obtaining A Purchase Order

Section 287(a) of the city's ordinances require that:

> *Requisitions for the purchase of supplies, materials, equipment or contractual services for a department, board or commission shall be received by the purchasing department prior to the issuance of a purchase order or contract…"*

This requirement functions to ensure that purchase decisions are reviewed and approved in advance for reasonableness, availability of funds, and compliance with competitive procurement rules. Despite these requirements, we found that of the 293 expenditures reviewed, 151 or 52% of the expenditures totaling $259,333, had an order date or invoice date prior to the date that the purchase requisitions for the goods or services was completed by the procuring department. As a result, each of these 151 purchases was already a fait accompli at the time the purchase requisition process was initiated and the control function of the PO process was effectively compromised. By not completing purchase requisitions prior to purchasing goods and/or services, EPS cannot be assured that there will be enough funds available to cover the cost of the purchases. In addition, the city cannot be assured that expenses being incurred by EPS are reasonable.

According to EPS officials, they always complete a requisition and obtain a PO prior to ordering goods or services. However, based on our audit testing in this area, this is clearly not the case. In addition to EPS officials, we spoke with the city's Purchasing Agent regarding this issue. This individual told us that he was aware of this problem and had tried

to address the problem with EPS, but it continued to occur. He told us that in those instances where items were purchased without POs, since the goods and services had been received, he was compelled to approve the PO after the fact, so that the vendors could be paid. However, he added that in those instances where there was questionable documentation relative to the goods or services purchased, he would not approve the request, and would ask EPS to provide more information and in some circumstances, actually refused to issue a PO.

b. Improperly Allocated Expenses Totaling $79,086

The recording of expenses to the proper accounts is essential to accurate reporting. To this end, DOE regulation 603 CMR 2.04(6)(f) requires each school district "to properly manage, lawfully expend" and "truthfully report the district's use of funds appropriated or awarded for the support of public education". DOE has promulgated a standardized chart of accounts for use by school districts in maintaining financial records in conjunction with its year-end financial reporting requirements. The accuracy of a school district's financial reports is dependent on the proper use of this chart of accounts and is essential to making sure a community is in compliance with its minimum Net School Spending requirements.

During our audit, we noted that EPS does not have a formal written cost allocation plan and has not established adequate controls over the allocation of expenses. As a result, during our audit, we found 58 transactions in our sample of 293 totaling $79,086 that were improperly allocated to accounts. Examples of these misallocated expenses are detailed in the table below:

Transaction Date	Vendor Name	Description of Expense	Amount	Account Allocated	Proper Account
6-16-04	Massachusetts Electric	Electric bills for various schools	$6,516	School Building Use	Electricity & Gas
1-22-04	Atlantic Express	Transportation of athletic team to away game	$399	Educational Expense Instructional	Athletic Revolving
7-15-03	Droste Educational Software	Microbudget support (accounting software)	$2,350	Instructional Special Expense	Central Administration
6-16-04	Metromedia Energy	Natural gas for various schools	$8,748	School Building Use	Electricity & Gas
1-22-04	WB Mason	Toner & ink cartridges delivered to Admin. Building	$521	Instructional Special Expense	Central Administration
9/11/03	Former Employee (name withheld)	Settlement of lawsuit	$25,000	Salaries – Instructional	Settlement accounts

In addition to the 58 improperly allocated expenses discussed above, we found 5 vendors whose expenses were allocated to one account for part of the fiscal year and then were allocated to a different account for the remainder of the fiscal year. Four of the five vendor's expenses were allocated to EPS's Educational Expense Instructional account for the first half of the year and then were allocated to the its Vocational School Account for the second half of the year, as detailed in the table below: Bills for the last vendor (TransCanada Power) were arbitrarily paid from the Electricity & Gas account until June, when five bills were then paid from the School Building Use Revolving Fund without an apparent basis for allocation or direct assignment of the cost to the revolving fund.

Vendor	Total Expenses First Half of Year "Educational Expense Instructional Account"		Total Amount Second Half of Year "Vocational School Account"		Total Expenses Total Year Expenses	
Pepsi	7	$1,071	5	$778	12	$1,849
Robert Mason	16	$17,250	9	$8,310	25	$25,560
Positive Negative	2	$135	7	$625	9	$760
PFG Springfield	5	$3,348	13	$8,969	18	$12,317

	"Electricity & Gas Account"		"School Building Use Account"		Total Year Expenses	
TransCanada Power	121	$276,953	5	$22,926	126	$299,879
Total	151	$298,757	39	$41,608	190	$340,365

According to EPS officials, these expenses were allocated to different accounts for the second part of the year because funds had either run low or run out in the original accounts. However by not allocating its expenses to the correct accounts, EPS is not properly recording and reporting these expenses as required by DOE regulations.

c. At Least $6,090 in Services Split to Avoid Completive Procurement Procedures

Chapter 2, Section 289(a) of the city's ordinances states in part:

> *All purchases of, and contracts for materials, equipment and contractual services… involving the sum of one thousand ($1,000.00) or more and less than twenty-five thousand dollars ($25,000.00) will require solicitation of at least three written quotes and will be awarded to the lowest responsible vendor that meets the purchase description.*

In addition, Chapter 2, Section 288(a), of the city's ordinances states:

> *No requisition, order or contract shall be subdivided to avoid any of the requirements of this article.*

Further, Massachusetts General Law Chapter 30B section 11 states the following:

> *No person shall cause or conspire to cause the splitting or division of any procurement, specification, invitation for bids, request for proposals, proposal, solicitation, or quotation for the purpose of evading a requirement of this chapter.*

Despite these requirements, our review of the 293 fiscal year 2004 expenditures in our sample, identified at least 4 instances, totaling $6,090, where it appears that EPS split the cost of goods/services purchases into separate purchase order transactions to avoid the $1,000 threshold which would have required 3 competitive quotes. For example, we found one instance where a hand written note from by an Everett High School staff member to the School Department Clerk, was included with the backup documentation for the purchase of stage production equipment from BN Productions. The note stated in part, "…There are

two separate prices because I was told the PO's had to be under $1,000…". There were in fact two PO's processed for this purchase in the amounts of $666.33 and $948.52 with the same invoice date of December 10, 2003.

By splitting services to avoid getting 3 written quotes, EPS is not only in violation of the requirements of Chapter 30B of the General Laws and city ordinances but it also cannot be assured that it is getting the best possible goods or services for the lowest possible price.

d. Questionable and Potentially Excessive Expenses Totaling as Much as $199,354

As noted in Audit Result No. 2, during fiscal years 2002 through 2004, EPS experienced budget deficits. Given this financial situation, it was clearly the responsibility of EPS's administration to take measures to ensure that all of the limited funds it received, were expended in the most economical and efficient manner in prioritized areas of importance.

Despite this, during our audit, we found some expenses that were paid by EPS that appeared to be unnecessary and/or excessive. For example, we determined that each year, EPS has a football homecoming day including a parade during the month of October. During our review of EPS's fiscal year 2003 and 2004 expenditures, we noted that EPS spent at least $64,239 on football homecoming day activities during these two fiscal years.

In addition to the homecoming parade expenses, we also found that EPS expends a significant amount of funds on advertising. We found that during fiscal years 2003 and 2004, EPS spent $75,778 and $59,337 respectively on advertising expenses. In order to assess the reasonableness of these expenses, during our audit, we contacted DOE to obtain a listing of comparable school districts to Everett. In response, DOE officials provided us with a list of 43 school districts in Massachusetts that it considered similar to Everett. From this information, we selected six districts, which, according to DOE, were comparable to Everett and contacted these districts to inquire about their advertising expenditures. We asked officials in each of these districts, about the average amount they spent on advertising each year as well as the types of things they advertised. The table below details the average amount spent on advertising by Everett and the amounts reported to us by officials from each of the six other school districts we contacted.

Average Amount of Annual Advertising Expenses By District

District	Average Annual Advertising Expenditures
Everett	$67,575*
Chelsea	$34,000
Fall River	$17,000
Fitchburg	$14,700
Malden	$25,000 - $30,000
Revere	$13,000
Salem	$10,000 - $20,000

*Everett's average is the calculated average for fiscal years 2003 and 2004.

As can be seen in the table above, Everett spent over 198% of the amount spent by Chelsea, which had the second largest annual expenditure amount for advertising in our sample and as much as six times what the City of Salem said it spends on advertisements on an annual basis. In addition, officials from all of the other six districts with whom we spoke, told us that the majority of their advertising expenses were either for personnel recruitment or the solicitation of bids for goods and services. These officials told us that they didn't pay to advertise things such as sporting events, concerts, meetings or to disseminate general school information. Rather, most of the school districts we contacted, told us that they utilize free advertisement opportunities in community newspapers and public service announcements in their local newspapers and local cable stations to advertise meetings and other such school related activities.

In contrast, while our review indicated that some of the advertising expenses incurred by EPS (approximately $15,000 during fiscal year 2004) were expended for recruitment advertisements in Boston newspapers, a significant amount of these advertisements were placed in local newspapers and advertised such things as class reunions and included articles about various sporting and school related events. Some of the items that EPS paid to advertise such as EPS Percussion Ensemble winning 2nd place in a competition in San Diego, appeared to be news events that are usually reported on by a newspaper at no cost as opposed to being something someone would have to pay to advertise. Also, based on what was told to us by officials in the other school districts we contacted, many of these notices of class reunions and other general school related information could have been publicized for free in various publications or on the local cable network or could have been included in

student handbooks and/or notices sent home with the students. Given the difficult financial situation the city has faced over the last several years, the city and EPS should evaluate its expenditures for advertising to assess the necessity and reasonableness.

e. Potentially Unnecessary, Inadequately Documented and Improperly Authorized Legal Expenses Totaling as Much as $180,025

During our audit we determined that EPS hired an attorney to represent EPS in various matters, including collective bargaining and contract negotiations. The table below details the hours and amounts billed by this attorney during fiscal years 2002 through 2004.

EPS Attorney Billings
Fiscal Years 2002 through 2004

Fiscal Year	Total Amount Billed
2002	$ 50,162.50
2003	$ 64,000.00
2004	$ 65,862.50
Total	$180,025.00

Unnecessary Expenses

During our audit, we first attempted to assess the reasonableness of the services provided by this individual. In order to do this, we interviewed the City Solicitor on several occasions regarding the billings by this attorney. The City Solicitor reviewed the bills with us and informed us that the rate that the attorney was billing ($125/hr) was not unreasonable. However, the City Solicitor told us that as the City Solicitor, he is responsible for representing the city on all legal matters including those related to EPS. However, the attorney in question, billed for several services that the Solicitor was unaware of and in the Solicitor's opinion, could have been handled by him at no additional cost to EPS.

Inadequately Documented Expenses

During our audit, we asked the attorney in question to provide us with all the documentation he was maintaining relative to the services he provided to EPS. In response, the attorney told us he had inadvertently deleted all his computer files for all his clients, as well as his own personal financial records, and that he was unable to retrieve any documentation relative to the work products (e.g., legal documents) he produced for EPS during the period in question so that we could reconcile this information to his billings to EPS. He told us that, except for

any written work products that may be in the possession of EPS, he did not have other documentation such as notes from meetings since it was his practice to discard his notes after meetings and phone calls with his clients. The only work product he provided to us related to EPS contracts with various employee groups and school administrators, a file on work performed on the Ponderoso Scholarship Gift to the Everett High School, and a three paragraph letter relating to a day off for school employees that he had negotiated with various employee groups. He stated that he worked on all the issues he invoiced EPS for and asserted that none of his work had been on personal issues for EPS employees. However, he was not able to provide us with documentation or other specific work products to support these assertions. Finally, the attorney stated that due to confidentiality issues, he does not specify the names of individuals or the nature of some of the matters he has handled on his bills. As a result, many of the invoices he submitted to EPS, did not contain the names of individuals to whom the billed services were provided or other reference information necessary for us to document that the specific services being billed for by this attorney were actually provided.

Improperly Authorized Legal Services

As previously mentioned, city ordinances require the City Solicitor to represent the city in all legal matters such as contract development, legal settlements, etc. Additionally, city ordinances expressly prohibit the unauthorized use of additional counsel, by stating:

> *The mayor, with the approval of the city council, may authorize the city solicitor to secure the advice or services of additional or substitute counsel in any pending or contemplated legal matter. No money shall be paid from the city treasury for any additional or substitute legal advice or services, except as herein authorized.*

However, Chapter 71 of the General Laws contains two sections that allow school committees to employ legal counsel separate from the City Solicitor. Specifically, Chapter 71, Section 37E, of the General Laws states:

> *The school committee of a city or town may employ legal counsel in connection with collective bargaining with employee organizations for school employees, and may expend money therefore from the funds appropriated by said city or town for school purposes provided, however, that no such money shall be expended in excess of twenty-five thousand dollars without the prior approval of the mayor, the city manager in a city having Plan D or Plan E form of government, or the board of selectmen. Said legal counsel shall not be subject to the provisions of section nine A of chapter thirty or the provisions of chapter thirty-one.*

Chapter 71, Section 37F, of the General Laws also applies, stating:

> *The school committee of a city or town may employ legal counsel for the general purposes of the committee and may expend money therefore from the funds appropriated by said city or town for school purposes. Said legal counsel shall not be subject to the provisions of section nine A of chapter thirty or the provisions of chapter thirty-one.*

However, our review of School Committee minutes did not indicate that the School Committee except in the limited situations discussed below, approved the Superintendent's use of legal counsel separate from that provided by the City Solicitor. In addition, we noted that there was no evidence that the City Council, Mayor or City Solicitor had ever approved the use of additional counsel by the Superintendent. Further, despite repeated requests, neither EPS nor the Attorney in question were able to provide us with a copy of an executed contract between the School Committee and the Attorney that clearly delineated the scope of his duties and responsibilities, the term of his service or his rate of compensation.

Our review of School Committee minutes indicated that the Committee authorized the use of this attorney for specific purposes including labor agreement negotiations and other matters. However, there was no indication in the minutes or in any other document furnished us by EPS officials that the School Committee had authorized the Superintendent to utilize this legal counsel at will for other matters not involving the Committee or that the Committee had been advised ahead of time and had approved, the extensive use of the attorney for various other matters.

f. Questionable Printing/Copying Expenses

During our audit, we determined that in fiscal year 2004, EPS paid 25 invoices totaling $25,560 to a former EPS teacher, for various copying and printing services. The services included among others; prom tickets, graduation programs, envelopes, report cards, various signs, emergency cards, attendance slips, corridor passes, memo pads, drama club tickets, football banquet tickets, business cards, stationary, and athletic event booklets. Our review of the invoices submitted by this individual and the supporting documentation maintained by EPS relative to these expenses, identified the following problems:

- There were no POs completed for any of the 25 invoices paid.

- There was no competitive procurement process or contract for these services. EPS simply paid the individual $30 per hour for his services. Because the total amount paid to this individual throughout the fiscal year exceeded $10,000, a competitive procurement should have been utilized.

- Eleven of the 25 invoices were over $1,000 for which EPS did not obtain written quotes as required by city ordinances.

- The bills submitted by this individual did not separate jobs but rather grouped different jobs for different departments together resulting in the misallocation of some of these costs.

- EPS charged all of the 25 expenses to either its Vocational School Expenses Account or Educational Expenses-Instructional even though most of the expenses had nothing to do with either of these accounts.

g. At Least $81,258 in Purchases Made with No Written Quotes

Chapter 2, Section 289(a), of city ordinances states, in part:

> *All purchases of, and contracts for materials, equipment and contractual services, and all sales of personal property, which have become obsolete and unusable, involving a sum of one thousand dollars ($1,000.00) or more and less than twenty-five thousand dollars ($25,000.00) will require solicitation of at least three written quotes and will be awarded to the lowest responsible vendor that meets the purchase description. If three written quotes cannot be obtained, formal advertised competition using sealed bids or proposals will be used.*

During our review of the 293 expenditures in our sample, we found at least 11 instances totaling $29,048 for expenditures over $1,000 each where no written quotes were obtained. Some examples of these expenditures are detailed in the table below:

Examples of Expenditures over $1,000
with No Written Quotes
Fiscal Year 2004

Date	Vendor	Amount	Description
1/22/04	Atlantic Express	$3,275	Bus transportation for the football team
8/15/03	NE Insurance Specialists	$6,977	Athletic Insurance
1/12/04	State-line Graphics	$6,170	Printing of the annual school report

We also noted at least 15 expenditures totaling $52,210 that were identified as being sole source purchases by EPS. Some examples of these sole source procurements are detailed in the table below:

EPS
Sole Source Expenditures over $1,000
Fiscal Year 2004

Date	Vendor	Amount	Description
10/17/03	Aleppo Clown Unit	$1,200	Performance in Homecoming Parade
9/30/03	Edwin Balis & Associates	$1,115	Plaques
10/17/03	Jim and Terri Webber	$3,700	Performance in Homecoming Parade
10/17/03	Premier Agendas	$3,929	Daily Planners
9/19/03	Faronics Tech. USA	$2,250	Work station licenses and Maintenance plan

In accordance with Chapter 30B of the General Laws, cities would normally be allowed to utilize sole source exemptions and not obtain written competitive quotes in certain limited situations defined by the statute. However, Everett's city ordinances do not allow for sole source procurements. Also, as noted in the table above, some of the procurements (e.g., the purchase of daily planners and plaques) did not appear to be of a nature where a sole source procurement rationale would reasonably apply.

h. Failure to Properly Execute Contracts

City ordinances require a contract for all purchases for supplies, materials, equipment and contractual services over a specified dollar amount. Specifically, city ordinance, Section 2-289 (d) states, "All contracts in excess of ten thousand dollars ($10,000.00) shall be executed in triplicate and shall, if for supplies, materials, equipment and contractual services, be signed on the part of the city by the mayor, the using agency, the purchasing agent and approved by the city solicitor as to form." Despite this requirement, during our audit, we found that for at least 24 vendors who were paid over $10,000 each (a total of $1,088,088), EPS did not execute a formal written contract in the manner prescribed by city ordinances. In most cases, payments to these vendors had been broken up and processed using multiple POs, often of less than $1,000 each, to avoid this contractual requirement. For example, one vendor, Ciro Carbone & Sons, Inc., was paid $13,640 in fiscal year 2002 and $16,168 in fiscal year 2004 to perform landscaping services at various school sites. These transactions were broken into 13 POs for fiscal year 2002 and 2 POs for fiscal year 2004. Since none of the individual POs exceeded $10,000, payments were processed by EPS through the city as though the services were unrelated and not subject to requirements that a contract be executed and filed with the city. In another case, Louis Grande, d.b.a. Grande Construction Co., was paid $22,575 during fiscal year 2002 and $23,750 during fiscal year 2003 for a total of $46,325. In each year,

payments were made through a single PO and EPS acknowledged that no contracts had been executed with this vendor for these services.

Recommendation

In order to address our concerns relative to these matters, we recommend that the city in conjunction with EPS, immediately take measures to ensure that they implement adequate internal controls over the procurement of goods and service and the payment of expenses. In the future, EPS should take measures to ensure that it fully complies with the requirements of applicable laws and city ordinances when dealing with procurement and the processing of expenses. All controls systems and procedures should be documented and staff should receive training to ensure that they are aware of any new policies and procedures that are implemented. Finally, EPS should review its expenses and try to minimize and eliminate any unnecessary expenses.

7. SHORE EDUCATIONAL COLLABORATIVE RESERVE ACCOUNT INAPPROPRIATELY USED TO PAY SCHOOL DEPARTMENT EXPENSES

We found that contrary to city ordinances, EPS uses city money that is being maintained by an affiliated organization the Shore Educational Collaboration (Shore) to pay for a variety of expenses without processing these expenses through the City Auditor and Treasurer. As a result, the city lacks the controls over these funds necessary to ensure they are being reported and expended for their intended purposes and in a manner consistent with applicable laws regulations and city ordinances. In fact, we found a number of problems relative to the payments made by EPS with these funds. For example, many of the purchases made with these funds were done without purchase orders or contracts as required by city ordinances, none of the expenses made with these funds were correctly reported in the financial activities of EPS thereby misrepresenting the actual expenses incurred by EPS, and some of the funds were used to pay the salary expenses of a retired part-time EPS employee who according to EPS Superintendent had exceeded the amount of compensation she could receive from the city as a retiree so the Superintendent agreed to pay for her continued employment using Shore funds.

EPS is one of 10 school districts that belong to an intergovernmental educational collaborative known as the Shore Educational Collaborative (Shore), located in Chelsea. Based on information provided to us by Shore, the agency was established in 1975 as a governmental entity pursuant to

Chapter 40, Section 4E of the General Laws for the purposes of providing intensive special needs care to children. The organization is controlled by a governing board comprised of School Committee representatives of each of the 10 districts participating in the Collaborative. EPS pays annual membership dues of $5,000 to participate in the Collaborative. Shore's activities are governed by an agreement that was executed by the participating districts and approved by DOE at the time Shore was established. The agreement allows Shore to provide direct Special Education services to students of member districts, to provide consultation and training, and to perform certain administrative activities such as processing billings from school districts to the federal government for services covered by Medicaid. In April 2003, EPS and the other members of the Collaborative amended this agreement to establish the Shore Occupational Learning and Vocational Educational Division Program (S.O.L.V.E.D) as a division of Shore. Under the amended agreement, members of the Collaborative such as EPS, who don't have Vocational Education Programs, may place students in the approved programs operated by other members of the collaborative by paying an additional fee established by the member school districts to the Collaborative. Direct payments from EPS to the Collaborative for fiscal years 2002 through 2004 totaled $4,074,929. In addition to EPS paying for services from Shore, it also receives revenues from Shore. These revenues however, are not remitted back to the city but rather, are maintained in a reserve account with Shore. Shore permits EPS to expend these funds for any education related purpose approved jointly by the Superintendent and EPS Special Education Director. When EPS wants to make an expenditure, it simply notifies Shore, who then issues a check to the specified vendor for the specified amount. During fiscal years 2002 through 2004 EPS expenditures from its Shore reserve account totaled $295,025 ($84,016; $146,135; and $64,874, respectively).

Deposits made by Shore to EPS reserve account are derived from three sources. These include; "tuition exchange" payments from other members of the Collaborative who send students to EPS Special Education classes but make payments for these classes to Shore rather than to the City Treasurer; rental payments for space rented by Shore from EPS to run Shore programs; and billing adjustments for the above described services which accounted for the majority (over $200,000), of the $295,025 in revenues in EPS reserve account during the period we reviewed. Shore is permitted to bill EPS and collect payments in advance of the provision of services and then make adjustments, if necessary, between the amount of services billed and those actually

provided. In terms of adjustments, Shore credits EPS reserve account for any adjustments made as a result of over billings instead of returning theses funds directly to the City Treasurer. The table below details the expenses EPS paid using its reserve account with Shore during fiscal year 2003.

Summary of Fiscal Year 2003 Reserve Account Expenses

Number of Invoices	Description	Amount
66	Newspaper Advertisements with three local papers including ads for homecoming celebration events.	$ 46,289.00
13	Homecoming Expenses (parade bands,)	12,000.00
4	Printing and copying expenses	14,303.50
6	Food/Banquet/Restaurant expenses that appeared to be school related	8,727.50
6	Transportation expenses – Special Education	60,000.00
6	Photography Expenses	4,686.45
1	Gas Cylinders	128.43
102	Total	$146,134.88

According to city ordinances:

> *All officers shall pay to the city treasurer forthwith all amounts received by them on behalf of the city, and make a true return to the auditor, stating the account upon which the same is received....*
>
> *... All bills and accounts of any nature for moneys payable to persons having demands against the city shall first be presented to the administrative board, commission or officer having charge of the department to which the bills and accounts pertain....*
>
> *... All bills and accounts so approved, together with the certified schedules, shall be filed with the city auditor not later than the eighth day of each month....*

In addition, Municipal Finance Law provisions set forth in Chapter 41, Section 35, of the General Laws states, in part:

> *Every town treasurer shall give bond annually for the faithful performance of his duties... He shall receive and take charge of all money belonging to the town, and pay over and account for the same according to the order of the town or of its authorized officers. No other person shall pay any bill of any department; provided, however, this provision shall not prohibit the treasurer from paying such bill by the use of bank treasurer's or cashier's check. He shall have the authority given to an auditor by section fifty-one, and shall annually render a true account of all his receipts and disbursements and a report of his official acts....*

Also, Chapter 41, Section 52, of the General Laws states:

> *All accounts rendered to or kept in the departments of any city shall be subject to the inspection of the city auditor or officer having similar duties, and in towns they shall be subject to the inspection of the selectmen… The auditor or officer having similar duties in cities, and in the selectmen in towns, shall approve the payment of all bills or payrolls of all departments before they are paid by the treasurer, and may disallow and refuse to approve payment, in whole or in part, any claim as fraudulent, unlawful or excessive.*

Despite these requirements, during our audit we noted the following problems with the recording of revenues and the processing of EPS expenses through Shore:

- Contrary to the aforementioned city ordinances and Chapter 41 of the General Laws, none of EPS revenues that were in its Shore reserve account were placed under the control of the City Treasurer and Auditor. In fact, during our audit, the City Auditor told us that he was not even aware of these funds.

- During the period covered by our review, the tuition rates that Shore charges its member such as EPS have been higher than the actual costs of the services. We also noted that, rates for subsequent years were not adjusted downward to factor in the excessive reimbursements received in prior years. This results in EPS unnecessarily accruing revenues in the Shore reserve account, which are taken out of the control of the city.

- The reserve account was funded by revenues derived from Special Education Tuition Service monies expressly appropriated for that purpose through school and municipal Net School Spending budget approval processes. Any funds not used for collaborative related special education tuition services should have been returned to the city and appropriate adjustments should have been made to End of Year Pupil and financial reports filed with DOE for the purpose of documenting Net School Spending compliance and other district financial activity. Instead these funds were expended at the direction of EPS administrators for purposes not associated with the collaborative's special education tuition services. Even the special education related transportation expenditures noted in the above table are required by DOE to be excluded from the allowable special education tuition costs recognized for Net School Spending compliance calculations and could not appropriately have been paid for by reserve account revenues derived from Net School Spending appropriations.

- Contrary to city ordinances, there were no PO's issued for any of these non-transportation related purchases. Invoices paid through EPS reserve account with Shore were accompanied by letters to Shore's Executive Director, co-signed by the Superintendent and EPS Director of Special Education, typically following the format of: "Please process the following invoices through the Everett Public Schools' escrow account: …Please call when the check is ready."

- During the first half of fiscal year 2005, Shore officials told us that they processed $5,764 in payroll payments at the direction of the Superintendent for an EPS part-time clerical employee assigned to work at EPS Central Administration office for the Special Education Director. According to Shore officials, these arrangements were only temporary, covering August through December 2004. This individual was actually an employee of EPS rather than Shore and had previously been included in Central Administration Salary appropriation

account payrolls as an EPS retiree called back to work on a part-time basis prior to August 2004. According to the Superintendent, these payroll expenditures had been shifted to Shore because the employee in question had already worked the maximum hours 960 hours in a calendar year allowed by the city for a retiree and so he decided to continue to pay her using Shore funds.

- In several instances, the expenditure documentation included contractual agreements executed by the Superintendent on behalf of the city despite the fact that, as previously noted in this report, that the Superintendent lacks the legal authority to independently execute such contracts. Also, these contracts had not been filed with the City Auditor. In addition, Shore officials told us that a rental agreement had been entered into between Shore and EPS for use of EPS facilities, with $15,000 in fiscal year 2005 rental payments to be made to EPS's reserve account at Shore. The City Auditor told us that he was unaware of this agreement and School Committee minutes made no reference to School Committee approval of any of these contractual agreements.

During our audit, we brought this matter to the attention of the City Auditor who followed up on the work we conducted and subsequently brought this issue to the attention of the School Committee and other city officials.

Recommendation

In order to address our concerns relative to this matter, we recommend that EPS take measures to ensure that all expenditures made from its Shore account, are done so with the knowledge and approval of the City Treasurer and Auditor. Adjustments should be made to EPS accounts so that they accurately reflect the types of expenses paid with city funds being maintained by Shore and EPS should make sure that it complies with all applicable laws, regulations and city ordinances in the expenditure of these funds. Finally, EPS should take measures to minimize the amount of revenues that are accrued in the Shore account, making sure that any excess funds were paid to Shore, based as estimated billings, are placed under control of the city.

8. INTERNAL CONTROLS OVER VARIOUS CITY AND EPS OPERATIONS NEED TO BE IMPROVED

We found that the city and EPS have not developed and implemented an adequate system of internal controls over certain aspects of their operations. For example, we found that the city does not have adequate written policies and procedures for its accounting, personnel, treasury or budget departments functions; has an accounting system that does not properly integrate its purchasing and payroll department activities with its accounting department activities; does not have adequate controls in place to ensure that proper procedures are followed relative to the

procurement, payment and recording of goods and services purchases; and does not maintain an up to date inventory listing of its furniture and equipment items. As a result, the Commonwealth cannot be assured that public funds being provided to the city and EPS are being properly safeguarded against misuse and expended for their intended purposes, or that all city transactions are being properly authorized, recorded, and reported. In fact, as noted throughout this report, we noted a number of problems including non-compliance with state laws and city ordinances in the areas tested.

According to Generally Accepted Accounting Principals (GAAP), entities such as the city should establish and implement an adequate internal control system to ensure that goals and objectives are met; resources are used in compliance with laws, regulations, and policies; assets are safeguarded against waste, loss, and misuse; and financial data is maintained, reported, and fairly disclosed in reports. In order to comply with GAAP, the city should have a documented comprehensive plan of internal control describing its goals and the means by which these goals and objectives are to be achieved. An effective internal control system would establish clear lines of authorization and approval for its various business functions, such as purchasing, contracting, asset management, travel, payroll, and personnel, as well as identify supervisory personnel and their responsibilities. In addition, the city's internal control systems should be backed up with a set of detailed subsidiary policies and procedures in writing that would communicate responsibilities and expectations to subordinate staff throughout the organization. These policies and procedures would provide direction to employees on how to complete the various business functions, such as accounting, billing and receiving, cash receipts, accounts payable, human resources, and payroll.

During our audit, we reviewed and evaluated the system of internal controls the city had established over certain aspects of its operations particularly those that would affect EPS activities. Based on our review, we noted the following internal controls problems in the areas reviewed.

a. Inadequate Documentation of Internal Controls Systems

During our audit we requested all the documentation (e.g., policies and procedures) the city was maintaining relative to the internal controls it had established over various aspects of its operations. Based on the information provided by city officials, we determined the following:

- The city does not have a formal comprehensive set of written internal control documents (e.g., policies and procedures) that cover all areas of it operations. For example, there are no written policies and procedures for the City Auditor, Treasurer or Budget departments, or for the city as a whole. The Purchasing Department has written policies and procedures and has promulgated a document entitled City Purchasing Plan and Procurement Procedures (Purchasing Plan) that became effective November 1, 2000 (See Appendix). However, the policies and procedures in the Purchasing Plan do not address all requirements of the city's ordinances. For example, city ordinances require formal written contracts approved by the Mayor and City Solicitor for all contracts for supplies, materials, equipment, and services over $10,000. However, this is not mentioned in the Purchasing Plan. Additionally, the City Procurement Agent developed a Sole Source Form to be used in sole source procurements. However, sole source procurements are not addressed in either the Purchasing Plan or the city's ordinances.

- City Ordinances and the Purchasing Plan differ somewhat from the provisions of the state's Uniform Procurement Act, Chapter 30B of the General Laws. For example, city ordinances and the Purchasing Plan do not identify all specific exceptions to competitive procurement requirements, and do not contain procedures for emergency procurements, requirements establishing specific terms (lengths) of each contract awarded and conditions under which the amount of services and supplies purchased under a contract may be increased.

- The MIS Department has developed a document entitled "Acceptable Use of Network Resources – a Policy Guide" as well as a document entitled "Policies and Procedures of The Management Information Systems Department." However, these documents do not cover EPS's systems.

- EPS does not have any written internal control documents. For example, there are no written policies or procedures relative to the accounting or purchasing of goods or services, other than the city's Purchasing Plan.

Without such documentation, there is inadequate assurance that city and, in particular, EPS employees will consistently conduct business that is in compliance with applicable laws regulations and city ordinances as well as the terms and condition of city contracts or that there will be continuity in record keeping and other procedures, especially in case of staff turnover. In fact, as noted throughout this report, we identified numerous instances where EPS conducted transactions that were not in compliance with the aforementioned requirements.

b. Deficiencies in the City's Accounting System

GAAP as well as sound business practices advocate that entities such as the city establish a proper accounting system that is documented in formal policies and procedures as well as a

written accounting manual that describes the accounting system and the policies and procedures that are utilized in the agency's accounting process. Such a manual not only serves to document and therefore maintain the integrity of the accounting process and its continuity in case of staff turnover, but also establishes accountability over various accounting activities. However, during our audit, we noted that the city had not established formal written accounting procedures or an accounting manual.

During fiscal year 2000, the city purchased the software that operates its accounting system from VADAR Systems Inc. (VADAR), of Maynard, MA at a cost of $35,000. At this time, the city also purchased a three-year maintenance contract for $10,000 per year. Subsequently, on July 28, 2004, the city executed a new maintenance contract with VADAR for a period of one year a cost of $17,840. According to information distributed by VADAR, this system is used, in whole or in part, by approximately 100 municipalities in Massachusetts. The VADAR system offers six modules; purchasing, accounting, real estate, billing and collection of water and sewer charges, personnel property and motor vehicle excise tax. The city agreed to purchase all six modules in 2000. However, at this time, VADAR had not completed development all of the modules. Consequently, the city has been installing each module as it has become available by integrating them into its general ledger system. At the beginning of our audit, the only module that was not fully integrated within the city's general ledger system was the purchasing modular, which had begun to be integrated in November 2004. In terms of system documentation, the city has a VADAR system users manual, which can be accessed by city staff within the city's computer system.

During our audit, we reviewed how the VADAR system operates and noted the following internal control problems:

- City officials told us that they cannot change or modify the VADAR system to accommodate changes in its operating activities or procedures. For example, The city's Management Information Systems Department (MIS) cannot make changes to the VADAR system to modify reports to be more useful, address software design issues such as barriers to entering current month receipt information prior to closing out the prior month, or even to make what should be routine adjustments such as establishing new accounts.

- The city upgraded its VADAR system in October 2002. At this time, the data that had been maintained by the city in the VADAR system was downloaded to the software

company for safekeeping during the software upgrade. However, according to city officials, at least some of this data pertaining to purchase order approvals was misplaced by VADAR who has not been able to locate it. Consequently, data relative to transactions prior to this date may be lost.

- During our audit period, although the city had begun implementing the VADAR purchasing module, it had not fully integrated into the city's general ledger system. Information inputted into the system by the Purchasing Department could not be viewed or used by the Budget or Accounting Departments which resulted in managers not having access to information needed to make sound business decisions, duplication of effort, and lack of protection against manipulation of the system. Due to the segmented nature of the system, controls were not put in place to ensure:

  That budgets were not overspent:

  - There was no mechanism in place to prevent purchase orders (PO's) from being approved when departments had overspent their budgets. The Purchasing Department does not have the capability to review a department's budgeted amount or remaining balances to date before issuing a PO.

  - The city's Budget Director could not review outstanding POs. Consequently, any attempt to analyze departmental spending or to project potential expenses to budgeted expenses could not be performed.

  - At any given time, the city has no idea of the number or dollar amounts of outstanding POs. The Purchasing Department does not monitor POs once they are approved and because the purchasing module is not fully integrated into the city's accounting system, the auditing department does not know what POs are still outstanding. As a result, at year-end, the City Auditor must contact the different city departments to determine year-end encumbrances. As used by the city, the system does not provide a full system of encumbrance controls as recommended by the DOR Guide to Municipal Accounting for Town Officials, which suggests that controls such as purchase order systems, and full encumbrance of all contract and payroll amounts be used to ensure that budgets are not overspent and that all transactions are properly planned, approved and tracked. A more complete description of the budgetary control problem we identified during our audit appears in Audit Result No. 2.

  That only approved purchases were being made:

  - The auditing department cannot extract PO information through the VADAR system, which leaves the process open for manipulation. Once the City Purchasing Agent approves a purchase request a PO is printed through the VADAR system and sent back to the originating department. The City Auditor's department does not receive a copy of the PO from the Purchasing Department and cannot obtain/review the PO information through VADAR. The Purchasing Office does not receive a copy of the invoice or a receiving/ shipping report. When the originating department receives goods or services, the invoice

and PO are then sent to the City Auditor's office for payment. The City Auditor's office must rely on the copy of originating departments PO to process the payment. If the PO has been altered, there is no mechanism within VADAR or no reconciliation outside of VADAR to detect any such change.

- There is an unreasonable duplication of effort in the processing of POs. Specifically, although PO information is inputted into VADAR by the city's Purchasing Department, because the City Auditor cannot access this PO information, all information must again be entered into the VADAR system by the City Auditor before the invoice can be paid.

That invoices can be reconciled to POs:

- Payments are not traced to POs through the VADAR system even though the accounting module includes a field for the PO number. The City's Auditor's office typically does not input the PO number into VADAR when inputting payment information. Additionally, the PO is filed separately from the paid invoice and check stub. The City Auditor told us that his office writes the PO number on the paid invoice. However, we found that only 157 of the 393 invoices we tested (40%) had PO numbers listed on the invoice.

That payroll expenses are recorded and reported correctly:

- Since payroll is not one of the modules currently available in the VADAR system, the city uses a freestanding payroll system called the Harper payroll system. This system is not integrated with the VADAR system and has not been structured in a manner to readily meet the accounting and reporting needs of EPS in terms of information it has to provide to DOE. As a result, extra work is required by both EPS and city staff to process payroll-related accounting data, and discrepancies between the two systems can occur and remain undetected. As described in Audit Result No. 4, this deficiency also contributes to errors in the End of Year Pupil and Financial Report EPS submits to DOE.

  All salary expenses must be recorded into the VADAR system by the City Auditor's office using Excel spreadsheets processed by EPS. The Harper payroll system divides the School Department into a number of payroll groupings, including bi-weekly teacher and substitute teacher payrolls as well a weekly payroll for administrative and maintenance staff and a monthly payroll for certain Athletic Department staff such as referees. Each payroll is divided into sub-units referred to as "departments" from which employees are paid and their salary is recorded. These "departments" do not clearly correspond to either true activity centers existing within EPS or to the standardized personnel accounting codes promulgated by the DOE for financial reporting purposes. The personnel related accounting codes promulgated by DOE call for use of a matrix of personnel categories using a tiered coding system with 75 possible combinations for personnel related costs even before costs are assigned to individual schools or grants. Few of the "departments" used in the Harper payroll system are the equivalent of categories established by DOE and extensive

manual adjustments are required to correctly report year end personnel expenditures using the reporting categories established by DOE. In addition, there are instances when the Harper Payroll system records an employee's salary under the wrong department code. For example, when a Whittier School employee also works part-time for a grant, the Harper system records the total gross pay under the Whittier School Department code and nothing under the grant code. For those employees who work for both a school and for a grant, as described in the example above, it is impossible to trace the payments made with city money vs. grant money without reviewing each pay period spreadsheet by department.

- The city's Harper personnel system restricts the use of multiple department codes in conjunction with a single employee identification account, effectively requiring the creation of multiple employee accounts for individual employees whose activity is legitimately split across multiple reporting centers. This restriction further complicates the maintenance of consolidated summary information for individual employees and can result in errors and confusion regarding data such as hire dates, length of service, etc.

- The Excel spreadsheets used by schools to record personnel information with the Harper payroll system lack appropriate security controls to prevent alteration by individuals other than the preparer.

The combined effect of the above identified control deficiencies in the area of payroll provides inadequate assurance of the accuracy of personnel related expenditures reported by EPS to DOE.

c. Purchasing

We found that the internal controls relative the city's purchasing activities including the inputting of new vendor information into the VADAR system, procurement and the processing of payments could be improved, as discussed below.

New Vendors

The City Auditor's office maintains what it calls a vendor book that lists the current information of all vendors who do business with the city. If a department wants to utilize a vendor that is new, a vendor number must be generated the City Auditor's Office. The city does not have a standardized form for adding a new vendor into the VADAR system. Departments that want to use a new vendor must call or e-mail the Assistant City Auditor and provide him with the name, address, phone number, federal tax identification number or social security number of the new vendor. The Assistant City Auditor told us that once this

is done, he conducts a review of the information in his vendor book and the VADAR system to verify that it is in fact a new vendor. He then inputs the information relative to the new vendor provided to him by the department into VADAR, indicates within VADAR if an IRS Form-1099 should be generated for this vendor, and then VADAR assigns the new vendor a vendor number. During our audit, we noted the following problems with this process.

- There are no written policies and procedures for entering a new vendor into the VADAR system, nor does the city have a standardized form that must be completed to perform this task.

- The VADAR system does not require that all fields that are available with the purchasing module to be filled when inputting a new vendor. Consequently, information such as contact names and federal tax identification numbers can be omitted and go undetected. Approximately 1,700 vendors were utilized by EPS expenditures during the period covered by our audit. We found that VADAR did not have phone numbers for over 1,200 of these vendors and almost 1,000 lacked federal tax identification numbers.

- The VADAR system does not have a control to prevent the duplicate recording of vendor information nor does it screen for duplicate federal tax identification numbers or social security numbers, names or addresses. For example, we found three instances in VADAR where EPS vendors had the city's federal identification number listed as the vendor's federal identification number. We also found over 75 vendors that were listed as many as three times in VADAR. While our review of the IRS Form-1099 tax filings for vendors did not note significant errors, we did note that extensive manual adjustments by staff of the City Auditor's office were required in order to correctly prepare these tax filings for the IRS and the state Department of Revenue (DOR).

Procurement

Based on our review of the controls EPS and the city had established relative to the procurement of goods and services we note the following problems:

- According to Chapter 30B, Section 19, of the General Laws:

  To the extent permitted by charter or local by-law in a city or town, or by written rules of the committee, commission or executive appointing the chief procurement officer in a district or county, a chief procurement officer may delegate his powers and duties in accordance with this section to one or more employees of the governmental body. A delegation shall be in writing, be signed by the chief procurement officer, and state the activity or function authorized and the duration of the delegation. A delegation may be in specific or general terms, may be limited to a particular procurement or class of procurements, and may be conditioned upon compliance with specified procedures.... A delegation of powers or duties by a chief procurement officer and any revocation or

> *amendment thereof shall not take effect until a copy of the same has been filed with the office of the inspector general.*

As noted above, all purchasing is required to be conducted under the control and approval of the City's Purchasing Agent, as the Chief Procurement Officer (CPO) position is referred to by Everett city ordinance, except where the CPO formally delegates purchasing authority to a particular city department or individual. This authority has not been delegated to EPS. As a result, all procurements conducted by EPS are required to be processed through the city's procurement office. However, as previously noted, during the conduct of our audit work, we found many procurements that were made directly by EPS.

- EPS does not have written policies and procedures relative to purchasing.

- EPS does not have a centralized internal purchasing unit. Rather, purchasing is handled in four locations: the Title 1 office, the Maintenance Department, General Administration and the Grants Office. Additionally, during the period covered by our audit, the School Department is the only department in the city that was not inputting its Purchase Request data directly into the VADAR system. As of the start of our audit work, we were told that the city had not equipped or authorized the schools to directly input the information. Consequently, the monitoring of EPS expenses by city officials is more difficult.

- As previously mentioned, once a PO is generated, the Purchasing Department does not keep track of approved POs. The Purchasing Department does not receive goods, nor does it receive any confirmations of receipt of goods. It also does not run reports from the VADAR System to monitor purchases. This lack of control over the procurement process can result in procurements being made in a manner that is not in compliance with applicable laws, policies and procedures and city ordinances. For example, as noted in Audit Result No. 6, we noted significant problems with procurements made by EPS during our audit period.

  Towards the end of our audit fieldwork, the city had begun integrating the Purchasing Module in the VADAR System and expects to have it fully integrated by July 2005. City officials believe that the integration of this module will affect better controls over the city's procurement activities.

Payments

As mentioned earlier, during our audit period, the VADAR system did not have any controls in place to alert the City Auditor if there were insufficient funds to pay for expenditures. However, the City Auditor told us that during the last quarter of the fiscal year, his department typically runs reports to review account balances before making payments. This control has been implemented to prevent the extensive overspending we identified in EPS accounts, as detailed in Audit Result No. 2. The City Auditor's office also runs the following reports monthly: Expenditure Ledger Variance (department appropriation); General Ledger

Detail (Grants, Trust and Agency); Fund Balance; Revenue & Expenditure (Revolving and Capital Projects); and Cash Receipts. No reports are sent to the Budget Director, however, she does have the capability to generate reports on the VADAR system that can compare budget to actual and has been providing such reports to the Superintendent and other city department heads since January 2004. We also noted that the School Committee does not receive the year-to-date budget to actual comparisons provided to the Superintendent, so they are not able to fulfill their legal oversight responsibility to monitor the actual expenditures to budget and prevent expenditures in excess of appropriated amounts.

Finally the Assistant City Auditor told us that the former City Auditor did not review POs. Rather, the assistant City Auditor told us that the former City Auditor only reviewed invoices to ensure that sales tax had not been added to the invoice and that funds remained in the budget to cover the expenditure. Due to the lack of effective controls in the processing of payments, we found numerous problems with the payments we reviewed during our audit.

In December of 2003 the city appointed a new Acting City Auditor, and this individual took measures to ensure that payments are proper including reviewing invoices for evidence of bid splitting and reviewing POs to ensure that they are issued prior to purchases.

d. Personnel Attendance and Payroll

During our audit we identified several problems in the personnel and payroll processes within EPS as discussed in the sections below.

Attendance

School employees do not sign timesheets. Rather, attendance is taken everyday at the different schools and departments. Each morning the names of employees who are absent are called into the receptionist at EPS administrative office by each school and department. The Secretary develops a daily Teachers Attendance List. This report lists the names of all employees, including all grant and maintenance employees, absent for the day at the various schools or departments. Included on this list is each individual's location of employment, name, and reason for absence. Once this list is complete, a copy is given to the secretary at EPS Administrative office.

In addition to the daily Attendance List discussed above, each school and department also maintains a Monthly Attendance List. At the end of each month, each school sends over a Monthly Attendance calendar to the secretary at EPS Administrative Office. The secretary and the payroll clerk, using the daily absence list, and the monthly school attendance report, develop a Monthly Attendance List for all employees: faculty, clerical, maintenance, teacher aid, and grant employees (this is actually a listing of the absences per employee for the month). This list includes the department or school, employee name, reason for absence and date. The Monthly Attendance list, along with a cover letter, is then sent to each building/department. The cover letter asks employees to review their absences and sign attesting to the accuracy of the information. When these sheets are returned to the administrator's secretary, any discrepancies found are resolved, and the payroll clerk is notified.

During our audit, we found the following internal control deficiencies within EPS attendance system:

- Although EPS has an attendance process there are no written policies and procedures relative to recording and maintaining attendance records.

- Employees working on Federal Grants do not sign either semi-annual certifications or time and activity reports as required by the federal regulations. (See Audit Result No. 4)

- The School Department did not maintain adequate documentation of the cumulative balance of sick and vacation time accrued by the top four EPS administrators (Superintendent, Assistant Superintendent, Associate Superintendent and Administrative Assistant). These Administrators are entitled to earn and can carry over 25 vacation days and 15 sick days per year. This is significant in that according to their employment contracts, they will be reimbursed at their per diem pay rate for all unused vacation days and will receive $90.00 per day for each accrued sick day. According to the Superintendent, the schools have attendance records going back many years. He did not see the need to keep a cumulative balance of the administrators accrued leave time, as they are very rarely absent. The days accrued as of the date of their last contract is listed on the contract, and they have daily attendance records to support days vacation and sick days used since then. However, we question the accuracy of the accruals stated on the employment contracts, since no formal records exist to allow these accruals to be verified.

- A cumulative balance of each administrative employee's vacation time is not kept.

- Two employees, the Payroll Officer and the Public Relations Director, are receiving unlimited sick time. According to the City Payroll Officer, to his knowledge, these two employees are the only full-time employees working for the schools not covered by contractual agreements. A number of years ago, the clerks, and these two employees, had unlimited sick days during a school year but could not accumulate sick days to be used in a subsequent school year. The clerks, in negotiating with the school department, changed their agreement to receive 15 sick days per year, and can now carry forward up to 105 days. However, since the Payroll Officer and the Public Relations Director do not belong to the clerical group, their sick leave benefit never changed and therefore they can technically take an unlimited number of sick days and a cumulative balance of their sick time is not being maintained.

- EPS did not maintain adequate documentation for the hours worked by one part-time maintenance employee. This individual worked nights and weekends for the maintenance department at various schools. However, she did not sign in or out of the building; did not complete time sheets; and her attendance/absences were not recorded in any records at the Maintenance Department or the school administration building. Additionally, she is related to the clerk in EPS Maintenance Department who prepares the Maintenance Department Payroll. According to the Superintendent, it never occurred to him to have written documentation to support the hours worked by this part-time employee who is also his sister-in-law. The Principal stated that this individual has held this position for many years and the work was always done well.

- The Monthly Attendance Lists are not signed by all employees:

  - The Superintendent, Assistant Superintendent, Associate Superintendent and Administrative Assistant do not sign.

  - Maintenance Department employees do not sign

  - Two Administration employees (the Director of Public Relations and a retired clerk who is continuing to work on a part-time basis for the Payroll Officer) do not sign

  - In many instances, other EPS staff including teachers does not sign this Monthly Attendance List and we found at least three instances where schools did not even return the Monthly Attendance List to EPS Administrative Office.

Payroll

EPS employees are paid through the City Treasurer's office. The Treasurer's office uses the previously described Harper payroll service, which generates the payroll checks; pays Federal and State payroll taxes; and provides W-2 documents for employees.

EPS conducts all other payroll related activities including hiring and terminating staff, establishing salary levels and maintaining payroll records. However, it does not have one

centralized payroll department. There is no one individual who oversees the school department payroll; rather six individuals process the payroll as follows:

- Payroll Officer -Teachers, Coaches, Administration and Clerical
- Payroll Clerk - Teacher Aids, Tutors, and Substitutes
- Maintenance Clerk – Maintenance, Custodians and Houseworkers
- Grant Clerk – Grants employees
- Title 1 Office – Title 1 employees
- Administrative Secretary - Night School employees

As previously described, EPS utilizes multiple weekly, bi-weekly, and monthly payrolls with multiple payroll "department" reporting units.

We found the following internal control deficiencies in EPS payroll process:

- There are no formal written policies and procedures relative to the maintenance of payroll information or the processing of payroll payments.
- EPS payroll process is very fragmented. The payroll is processed in multiple locations and each individual who is responsible for processing payroll information has his or her own system to document and support the payroll expenditures.
- The Harper and VADAR systems will not reconcile for any school or grant in which employees have been paid though both EPS regular payroll and grant funds. Anyone trying to determine the salary expenditure for a particular school must use the city's General Ledger. To determine who is being paid in a particular school, you must go to that school's Harper spreadsheet and separate out the payments made under grants.
- The city has not been consistent with the number of employee codes an employee can have. In some instances, an employee can have two codes; for example coaching and teaching at the Whittier School. The employee's coaching pay is recorded in the coaching account and his/her teaching pay is recorded in the Whittier school department payroll account. However, in other instances, EPS can only give an employee one payroll code; for example if an employee works for the After School grant and teaches at the Whittier School. In the Harper payroll System, the employee is paid under the Whittier School payroll department code for both positions.
- There are no controls in place to prevent the payroll information from being altered. This is of particular concern given that the process is manually segmented and not properly controlled. Also any change made would not be detected until the employee

reported the error or until the monthly reconciliation is made between the VADAR General Ledger Expenditure report and the Payroll Officers Summary Sheet or the Maintenance, Grants or Title 1 reconciliation.

- There is no control in place to ensure that employees are being reported in the correct departments. If a teacher has been transferred to a different school and the payroll department is not notified, the teacher's payroll expenses will continue to be charged to the wrong school.

e. Fixed Assets

According to, Article IV, Section 2-286 (e) of the city's ordinances "The Purchasing Agent shall require that each using agency shall make an inventory, in each year, of all personal property under it's charge, and a copy of such inventory shall be forwarded to the Purchasing Agent." Although an annual citywide physical inventory is required by this city ordinance, an annual inventory has not been performed since 1999.

A 2002 fixed asset inventory, was performed by the City Auditor's office in order to facilitate the required conversion to Government Accounting Standards Board (GASB) 34. However, this inventory was actually a summary of the furniture and equipment in each building and not a true inventory conducted for the purposes of safeguarding assets. For example, one page of this 2002 inventory reports that there are 300 computer monitors at Everett High School. However, there is no identifying information such as the make, model and serial number of these items and the locations of these items are not listed.

EPS also has a computer inventory, which is a listing of all computers and related equipment for the entire School Department. The inventory was performed in July 2001 and not been updated. The inventory includes location, description, manufacturer and serial number but it does not include purchase date or cost. Moreover, since 2001, these have been significant changes, purchases and/or dispositions of equipment that should have been reflected in EPS's inventory. For example, the Lewis and Devens schools closed since this inventory was conducted and we were informed that all the computer equipment was disposed of.

f. Lack of a Licensed School Business Administrator

Chapter 71, Section 41, of the General Laws authorizes the School Committee to directly hire a School Business Administrator as well as a Superintendent. However, the Everett School Committee has not hired a School Business Administrator. Rather, EPS officials told us that

the business administrator's function is divided among the Administrative Assistant to the Superintendent, the Assistant Superintendent, and the Associate Superintendent. We believe that an experienced, licensed School Business Administrator, independently appointed by the School Committee, would better serve to ensure that the deficiencies we identified throughout our audit are minimized or eliminated.

Recommendation

In order to address our concerns relative to these matters, we recommend that the city in conjunction with EPS, immediately take measures to ensure that they implement adequate internal controls over all aspects of their operations. All controls systems and procedures should be documented and staff should receive training to ensure that they are aware of any new policies and procedures that are implemented.

APPENDIX A

City of Everett Five Point Purchasing Plan

As of November 1, 2000, the following guidelines must be followed:

The Purchasing Agent will review all purchases for goods, or services before the goods or services are procured.

All purchases for goods or services shall be in writing. Such writing will be reviewed and signed by the purchasing agent before a contract will be deemed valid.

All purchases of goods or services shall contain a description of the goods and services which are subject of the contract and shall also include the total price or unit price of the goods or services, the time of the performance for the supply of said goods or services, a specific start and end date to the contract which shall be no greater than three years.

All purchases for goods or services which is proposed to be exempt from the purchasing law shall not be entered into or deemed valid unless there is document stating such exemption and signed by the Purchasing Agent.

All purchases for goods or services shall follow the procurement procedures as promulgated by the Purchasing Agent.

1. For purchases less than $1,000 – Use of sound business practices is required by the Department Heads. (Recommend that you periodically solicit price lists or quotations to ensure you are getting favorable prices)

2. For purchases of $1,000 or more and less than $25,000 – will require a minimum of three written quote form three different vendors. Copies of these quotes must be with the requisition. If three quotes cannot be obtained, formal advertised competition using sealed Bids or Proposals will be used. (Chapter 30B of the General Laws)

3. For purchases of $25,000 or more – will rewrite a formal advertised competition using sealed Bid or proposals. (Chapter 30B of the General Laws) A written request must be submitted to this department along with ten (10) Copies of specifications.

4. Orders should not be placed until you have received a purchase order form from this department.

5. Requisitions must have complete descriptions of item(s) as to size, pack, and mfg., etc.

6. Suggested Vendor, complete address including zip code and phone number.

7. Address where delivery will be made.

8. Unit price & total of each item and any delivery charges.

APPENDIX B

Grants Received by EPS

Source	Name of Grant	Fiscal Year 2003 Award	Fiscal Year 2004 Award
Federal Grants*			
DOE	Title II, Part A: Improving Educator Quality	$343,214	$ 379,785
DOE	Enhancing Education through Technology	31,483	50,643
DOE	Technology Enhancement Competitive Grant	28,200	20,300
DOE	Title III: English Language Acquisition and Academic Achievement Program for Limited English Proficient Students	79,473	92,257
DOE	LEP – Summer Support	-	6,000
DOE	State Assessment Program	3,910	-
DOE	Early Childhood Mental Health Project	7,000	-
DOE	Federal Special Education Entitlement	965,897	1,180,317
DOE	Special Education Integration (After School and Out of School Programs Enhanced Programs – Including Children and Youth With Disabilities)	20,000	-
	Special Assistance: Program Review Preparation	-	6,000
DOE	Early Childhood Special Education Allocation	28,446	28,198
DOE	Special Education Early Childhood	17,820	
DOE	Exploring Options for Children With Autism	75,000	75,000
DOE	Title VI: Materials Support	4,500	4,787
DOE	Special Education Program Improvement	57,580	41,625
Tufts University	Preparing Tomorrow's Teachers to Use Technology (Federal Grant Sub award)	56,092	-
Salem State College	Preparing Tomorrow's Teachers to Use Technology (Federal Grant Sub award)	-	60,000
	Special Education Summer Institutes	-	1,200
DOE	Title V – Innovation Programs	36,489	46,360
	Title I, Part A	1,434,253	1,769,907
DOE	Title IV, Part A – Safe and Drug Free Schools and Communities	36,107	45,158
DOE	Comprehensive School Reform Demonstration Program	51,500	51,500
State Grants		-	-
DOE	Community Partnerships for Children	654,329	569,266
DOE	Student Achievement	2,500	-
DOE	Academic Support Services (School Year)	124,300	-
DOE	Summer Program for English Learners	20,771	-
	Academic Support Services (Summer)	57,481	29,000
	Compass School	-	7,500
DOE	State Aid to Reduce Class Size	169,754	-
Eagle Bank		-	5,000
Mellon EBEC		-	90,000
		$4,306,099	$4,559,803

*Federal funds were passed through the Massachusetts DOE.