



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

Official Audit Report – Issued September 6, 2022

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## Massachusetts School Building Authority

For the period January 1, 2019 through June 30, 2021





Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

*Making government work better*

September 6, 2022

Mr. Jack McCarthy, Executive Director  
Massachusetts School Building Authority  
40 Broad Street, Suite 500  
Boston, MA 02109

Dear Mr. McCarthy:

I am pleased to provide this performance audit of the Massachusetts School Building Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, January 1, 2019 through June 30, 2021. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts School Building Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular background.

Suzanne M. Bump  
Auditor of the Commonwealth

cc: Deborah B. Goldberg, State Treasurer and Receiver General and Chair of the Massachusetts School Building Authority Board of Directors  
James A. MacDonald, Chief Executive Officer of the Massachusetts School Building Authority

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## LIST OF ABBREVIATIONS

ARP	Accelerated Repair Program
MSBA	Massachusetts School Building Authority
OSA	Office of the State Auditor
SOI	statement of interest

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## EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Massachusetts School Building Authority (MSBA) for the period January 1, 2019 through June 30, 2021.

In this performance audit, we assessed whether MSBA prioritized school districts' statements of interest (SOIs)<sup>1</sup> for the Core Program and the Accelerated Repair Program (ARP) in accordance with Section 8 of Chapter 70B of the General Laws. In addition, we determined whether MSBA had established written policies and procedures to govern prioritization for the Core Program and ARP.

Below is a summary of our finding and recommendation, with links to each page listed.

<b>Finding 1</b> <b>Page <a href="#">7</a></b>	MSBA does not have written policies and procedures to govern prioritization for the Core Program and ARP.
<b>Recommendation</b> <b>Page <a href="#">8</a></b>	MSBA should develop written policies and procedures for staff members to follow when evaluating and prioritizing SOIs submitted by school districts.

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1. According to MSBA's website, "An SOI is a form that can be completed by cities, towns, and regional school districts ("Districts") that are seeking funding from the MSBA. Submitting an SOI is the first step in the Massachusetts School Building Authority ("MSBA") program for school building construction, addition/renovation, and repair grants. The SOI asks the District to state what it believes are the deficiencies in a school building and how those deficiencies fit the statutory priorities established in [Chapter 70B of the General Laws]."

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## OVERVIEW OF AUDITED ENTITY

The Massachusetts School Building Authority (MSBA) was created by Chapter 70B of the Massachusetts General Laws. Its website states,

*The Massachusetts School Building Authority ("MSBA") is a quasi-independent government authority created to reform the process of funding capital improvement projects in the Commonwealth's public schools. The MSBA strives to work with local communities to create affordable, sustainable, and energy efficient schools across Massachusetts. . . .*

*Our Mission: Partner with Massachusetts communities to support the design and construction of educationally-appropriate, flexible, sustainable, and cost-effective public school facilities.*

According to Section 1A of Chapter 70B of the General Laws,

*[MSBA's board of directors] shall consist of the state treasurer, who shall serve as chairperson, the secretary of administration and finance, the commissioner of education, and 4 additional members appointed by the state treasurer, 2 of whom shall have practical experience in educational facilities planning, school building construction, or architecture and school design, and 2 of whom shall be persons in the field of education with demonstrated knowledge of Massachusetts curriculum frameworks and other relevant federal and state educational standards.*

MSBA is funded through a dedicated 1% statewide sales tax (drawn from the statewide 6.25% sales tax).

According to its financial statements, MSBA had the following dedicated sales tax revenue for fiscal years 2019 through 2021:

<b>Fiscal Year 2019</b>	\$896,828,000
<b>Fiscal Year 2020</b>	\$924,504,000
<b>Fiscal Year 2021</b>	\$1,071,686,000

As of August 1, 2021, MSBA had 73 employees. It is located at 40 Broad Street, Suite 500, in Boston.

### Competitive Grant Programs

MSBA administers competitive grant programs to which school districts can apply based on criteria established by the Commonwealth. The Core Program is primarily for extensive school repairs, additions, or new school construction. The Accelerated Repair Program is for renovation projects and repairs, typically for roofs, windows, doors, and/or boilers.

School districts that are interested in participating in these programs must submit statements of interest (SOIs). MSBA conducts a due diligence process for each SOI submitted. During this process, MSBA reviews the SOI for completeness and accuracy and conducts a senior study (which is a site visit or virtual visit to the school). MSBA has limited funding for these grant programs. Therefore, school districts that MSBA determines to have the most urgent need, based on the results of its due diligence process, are invited to apply for the grants until the funding is completely allocated or there are no more SOIs.

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## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts School Building Authority (MSBA) for the period January 1, 2019 through June 30, 2021.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in this report.

Objective	Conclusion
1. Does MSBA prioritize school districts' Core Program statements of interest (SOIs) as required by Section 8 of Chapter 70B of the General Laws?	Yes
2. Does MSBA use a procedure that evaluates school districts' Accelerated Repair Program (ARP) SOIs based on the priorities in Section 8 of Chapter 70B of the General Laws?	Yes
3. Does MSBA have written policies and procedures to govern prioritization for the Core Program and ARP?	No; see Finding <u>1</u>

To achieve our audit objectives, we gained an understanding of MSBA's internal control environment as it related to the objectives by reviewing MSBA's most recent internal control plan, risk assessment, policies, and procedures, as well as conducting inquiries with MSBA's management and employees. We evaluated the design and implementation of the internal controls. We tested the operating effectiveness of MSBA's controls over the SOI process.

We performed the following procedures to obtain sufficient, appropriate audit evidence to address the audit objectives.



To determine whether MSBA prioritized Core Program SOIs in accordance with Section 8 of Chapter 70B of the General Laws, we received and reviewed a list of 132 Core Program SOIs submitted during the audit period and selected a random, nonstatistical sample of 28. For each SOI in our sample, we reviewed MSBA's assessment of priorities from Section 8 of Chapter 70B of the General Laws. We reviewed hardcopy evidence that included documentation of the following:

- a review of the SOI by MSBA's Legal Unit
- MSBA's verification of the school's physical condition (i.e., whether the new construction or addition was necessary)
- MSBA's verification of the school district's self-reported project scope and priority
- all elements of the due diligence process having been completed
- a site visit or virtual visit by MSBA's Capital Planning Unit
- MSBA management having reported the results of the assessment to the MSBA board of directors.

We verified that school districts that had Core Program SOIs, and had been invited to apply for Core Program grants, had made presentations to MSBA's facilities assessment subcommittee.<sup>2</sup> We also verified that MSBA sent a rejection letter to each school district that submitted a Core Program SOI and was rejected.

To determine whether MSBA used a procedure that evaluated ARP SOIs in accordance with Section 8 of Chapter 70B of the General Laws, we received and reviewed a list of all ARP SOIs submitted during the audit period and selected a random, nonstatistical sample of 35. We reviewed MSBA's minimum age requirements for roofs, boilers, windows, and doors, which state that these items must be a certain age before their schools can be invited to apply for grants to replace them. In 2019, for roofs, the age was 27 years; for boilers, 20 years. (Windows and doors were not eligible in 2019.) In 2020, the minimum ages were 30 years for roofs, 35 years for boilers, and 35 years for windows and doors. For each ARP SOI in our sample, we reviewed MSBA's assessment of priorities from Section 8 of Chapter 70B of the General Laws. We reviewed the hardcopy evidence, which included documentation of the following:

- a review of the SOI by MSBA's Legal Unit

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2. According to MSBA's website, "The Facilities Assessment Subcommittee meets to hear district presentations regarding proposed projects and provide feedback to districts before the project is presented to the Board [of Directors]."

- MSBA's verification of the school's physical condition (i.e., the age of the windows, doors, roofs, and/or boilers to be replaced)
- MSBA's verification of the school district's self-reported project scope and priority
- all elements of the due diligence process having been completed
- a site visit or virtual visit by MSBA's Capital Planning Unit
- MSBA management having reported the results of the assessment to the MSBA board of directors.

We verified that school districts that had ARP SOIs, and were invited to apply for ARP grants, had made presentations to the facilities assessment subcommittee. We also verified that MSBA sent a rejection letter to each school district that submitted an ARP SOI and was rejected.

To determine whether MSBA has established written policies and procedures to govern prioritization for the Core Program and ARP, we requested MSBA's written policies and procedures that governed the prioritization. We received and reviewed MSBA's internal control plan and a risk assessment for the due diligence processes for both Core Program and ARP SOIs. In addition, MSBA employees gave us an overview of the process MSBA uses to evaluate all Core Program and ARP SOIs, which is designed to prioritize grant funding for the school districts with the most urgent need.

We used a nonstatistical sampling method for our audit objectives and did not project the result from the samples to the populations.

## **Data Reliability**

We obtained a list of 305 Core Program and ARP SOIs processed by MSBA during the audit period. To determine the reliability of the list, we verified that there were no hidden rows or columns and that there were no duplicates on the list. We randomly selected 20 SOIs from the list; traced them to physical files; and verified the school districts, school names, and years. We also randomly selected 20 physical files from MSBA's SOI cabinets and verified that the school districts, school names, and years on the list matched those in the files.

Based on the results of the above procedures, we determined that the list was sufficiently reliable for our audit purposes.

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## DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

### 1. The Massachusetts School Building Authority does not have written policies and procedures to govern prioritization for the Core Program and Accelerated Repair Program.

Although the Massachusetts School Building Authority (MSBA) has established a process to evaluate and prioritize the statements of interest (SOIs) that school districts submit to its Core Program and Accelerated Repair Program (ARP) for grant funding, it has not established any written policies and procedures regarding this process. Without written policies and procedures, MSBA lacks the internal controls necessary to adequately ensure that its evaluation and prioritization of SOIs are completed in a consistent manner and that school districts with the most urgent need are given priority.

During our audit, MSBA employees gave us an overview of the process MSBA uses to evaluate SOIs, which is designed to prioritize grant funding to the school districts with the most urgent need. MSBA management also provided copies of the various documents (e.g., Excel spreadsheets that show MSBA's priority rankings for submitted SOIs, an internal control plan, and a risk assessment) that MSBA employees use in this process. However, MSBA management told us that there were no written policies and procedures that described how to conduct the various aspects of the process (e.g., how to weigh the SOI evaluation criteria and how to prioritize SOI rankings).

### Authoritative Guidance

Section 10.01 of the Office of the Comptroller of the Commonwealth's *Internal Control Guide* states the importance of establishing policies and procedures as a key component of an entity's control activities:

*Policies and procedures are the strategic link between the mission statement and day-to-day operations. Well-written policies and procedures allow employees to clearly understand their roles and responsibilities within predefined limits.*

*Policies identify the key activities and provide a general strategy to decision-makers on how to handle issues as they arise by providing the reader with limits and a choice of alternatives that can be used to 'guide' their decision making process as they attempt to overcome problems.*

*Procedures provide the reader with a clear and easily understood plan of action required to carry out or implement a policy. A well-written procedure will also help eliminate common misunderstandings by clearly identifying job responsibilities and establishing boundaries.*

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government* state,

- 12.01 Management should implement control activities through policies. . . .*
- 12.02 Management documents in policies the internal control responsibilities of the organization.*
- 12.03 Management documents in policies for each unit its responsibility for an operational process's objectives and related risks, and control activity design, implementation, and operating effectiveness. . . . Each unit, with guidance from management, determines the policies necessary to operate the process based on the objectives and related risks for the operational process. Each unit also documents policies in the appropriate level of detail to allow management to effectively monitor the control activity.*
- 12.04 Those in key roles for the unit may further define policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process. Procedures may include the timing of when a control activity occurs and any follow-up corrective actions to be performed by competent personnel if deficiencies are identified.*

These standards represent best practices for all government agencies.

## **Reasons for Lack of Written Policies and Procedures**

MSBA officials did not give a reason that they had not developed written policies and procedures for this process.

## **Recommendation**

MSBA should develop written policies and procedures for staff members to follow when evaluating and prioritizing SOIs submitted by school districts, in an effort to enhance transparency of decision making.

## **Auditee's Response**

*The Massachusetts School Building Authority ("MSBA") would like to note that it uses various tools and follows set procedures in its Statement of Interest ("SOI") evaluation process. As referenced below, the MSBA provided numerous documents to the [Office of the State Auditor, or OSA] which detail the robust process that is undertaken during each SOI filing period. While the MSBA understands the concerns noted in the [OSA] report, the MSBA is confident in its SOI evaluation process. The MSBA will take the recommendations made by the [OSA] under advisement and look for additional opportunities to document its evaluation process.*

*In response to the [OSA]'s request for MSBA's written policies and procedures regarding the due diligence process, the MSBA provided Process Overview documents for both the Core and Accelerated Repair Programs, which are also available on the MSBA's website. These documents provide a summary of the scope, schedule, process, and steps of the due diligence process. In addition, over the course of the audit discussions, the MSBA provided several presentations reviewing these process overviews and, in response to inquiries from the auditor, clarifying the steps of the due diligence phase distinguishing it from other phases of the MSBA grant process. As part of the presentations, MSBA staff provided multiple documents to the auditors that represent the tools, the analysis, and define the measurements used to evaluate each SOI received. To further clarify the relationship of these tools, the MSBA prepared and presented a flow chart illustrating the connection between these tools. MSBA staff recognizes the importance of the MSBA's grant program to Massachusetts school districts and takes seriously its responsibility to provide a fair, transparent, and equitable process. MSBA staff appreciate that the [OSA]'s findings include that the MSBA "prioritize[s] school districts' Core Program statement of interest (SOIs) as required by Section 8 of Chapter 70B of the General Laws" and uses "a procedure that evaluates school districts' Accelerated Repair Program (ARP) SOIs based on the priorities in Section 8 of Chapter 70B of the General Laws." . . .*

*The MSBA believes that the Core Process Overview documents available on its website and shared with all superintendents during each SOI opening, outline the extensive tools used during the SOI due diligence phase. These documents provide MSBA staff with, as referenced in the [OSA] report, "the internal controls necessary to adequately ensure that its evaluation and prioritization of SOIs are completed in a consistent manner and that school districts with the most urgent need are given priority."*

*As noted above, the MSBA will take the recommendations made by [OSA] under advisement and look for additional opportunities to document its evaluation process.*

## **Auditor's Reply**

The Office of the State Auditor (OSA) agrees that MSBA gave us an overview of its process for evaluating SOIs, as well as copies of the various documents its employees use in this process. However, MSBA has not established any written policies and procedures that describe how to conduct the various aspects of the process (e.g., how to weigh the SOI evaluation criteria and how to prioritize SOI rankings). Written policies and procedures are a critical component of an agency's internal control system that ensure that its activities are conducted consistently, effectively, efficiently, and in compliance with applicable regulations and other requirements. Written policies and procedures also establish accountability and allow management to effectively monitor and manage activities.

In its response, MSBA states that it will look for additional opportunities to document its evaluation process. However, OSA's issue is with the controls that MSBA has established over the process. Therefore,

we again urge MSBA to develop written policies and procedures for staff members to follow when evaluating and prioritizing SOIs submitted by school districts.