



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

Making government work better

Official Audit Report – Issued June 28, 2017

Massachusetts School Building Authority

For the period July 1, 2013 through June 30, 2015





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Ms. Deborah Goldberg, Chair
Massachusetts School Building Authority
Office of the State Treasurer
State House, Room 227
Boston, MA 02133

Dear Ms. Goldberg:

I am pleased to provide this performance audit of the Massachusetts School Building Authority. This report details the audit objectives, scope, and methodology for the audit period, July 1, 2013 through June 30, 2015. My audit staff discussed the contents of this report with management of the agency, whose comments we considered when drafting 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 "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

ARP	Accelerated Repair Program
DESE	Department of Elementary and Secondary Education
DOR	Department of Revenue
MSBA	Massachusetts School Building Authority

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 July 1, 2013 through June 30, 2015.¹ For the reimbursement rate, we expanded our audit period to include the period January 1, 2013 through June 30, 2015.

In this performance audit, we examined certain MSBA activities related to its administration of the two grant programs that it uses to provide funding to school districts. Specifically, we determined whether (1) the rates of reimbursements for grants were calculated correctly in accordance with Section 10 of Chapter 70B of the General Laws, (2) grant projects funded by MSBA's Accelerated Repair Program (ARP) were completed within the recommended 18-month period, and (3) MSBA properly processed payments to school districts.

Based on our audit, we have concluded that MSBA accurately calculated rates of reimbursement, ensured that projects funded by its ARP were completed in a timely manner, and properly processed payments to school districts.

1. Generally accepted government auditing standards require that organizations be free from organizational impairments to independence with respect to the entities they audit. Under Section 3A of Chapter 70B of the General Laws, MSBA's advisory board has 23 members, including the State Auditor. The MSBA advisory board is inactive. This disclosure is made for informational purposes only, and this circumstance did not interfere with our ability to perform our audit work and report its results impartially.

OVERVIEW OF AUDITED ENTITY

The Massachusetts School Building Authority (MSBA), located at 40 Broad Street in Boston, was created by Chapter 208 of the Acts of 2004, as established under Section 1A of Chapter 70B of the Massachusetts General Laws. Its powers were established under Section 3 of that chapter (see Appendix). According to MSBA's website, it was "created to reform the process of funding capital improvement projects in the Commonwealth's public schools." MSBA replaced the school building assistance program formerly administered by the Department of Education (now the Department of Elementary and Secondary Education). MSBA operates under the direction of a seven-member board of directors, consisting of the State Treasurer, who serves as its chairperson; the Secretary of Administration and Finance; the Commissioner of Education; and four additional members appointed by the State Treasurer.

MSBA offers two programs: Core and Accelerated Repair. To qualify for the Accelerated Repair Program (ARP), a project must involve the repair or replacement of windows/doors, roofs, or boilers that are at least 20 years old; have a total projected cost of more than \$250,000; involve a building whose primary purpose is educational; and be for a school that, according to its district, is not overcrowded. The Core Program is primarily for projects beyond the scope of the ARP, including those involving extensive repairs, renovations, or additions, or new school construction. Once a school district has completed eligible work, a reimbursement request is made to MSBA, and the school district is reimbursed for no more than the maximum amount of its approved grant award. In 2015, MSBA provided a total of \$732.2 million in grant payments under the two programs.

Under Section 2 of Chapter 70B of the General Laws, an amount equal to 1% of the state's 6.25% statewide sales tax is deposited into the School Modernization and Reconstruction Trust Fund held by the State Treasurer and is available to MSBA. In 2014 and 2015, MSBA had \$731.2 million and \$767.4 million of dedicated sales tax revenue and \$799.7 million and \$827.1 million of total revenue (including investment and grant income), respectively, as detailed below.

General Revenue (In Thousands)	Fiscal Year 2014	Fiscal Year 2015
Dedicated Sales Tax	\$ 731,239	\$ 767,361
Investment Income	46,075	37,164
Grant Income	22,428	22,197
Intergovernmental Revenue*	0	393
Total Revenue	<u>\$ 799,742</u>	<u>\$ 827,115</u>

* This represents the Commonwealth's contribution to the Massachusetts State Employee Retirement System on behalf of MSBA.

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 July 1, 2013 through June 30, 2015. For the reimbursement rate, we expanded our audit period to include the period January 1, 2013 through June 30, 2015.

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 and the conclusion we reached regarding each objective.

Objective	Conclusion
1. Are the reimbursement rates calculated correctly, including any adjustments for all communities involved in the grant process as set by Section 10 of Chapter 70B of the General Laws?	Yes
2. Are all grants that are awarded under the Accelerated Repair Program (ARP) completed within the recommended 18 months?	Yes
3. Are all submitted project invoices reviewed by MSBA before reimbursement? Are payments that are made to the districts timely and accurate? Are the audits of submitted invoices by school districts thorough to ensure that reimbursements are proper and comply with the grant requirements?	Yes

To achieve our objectives, we gained an understanding of MSBA's internal controls that we deemed significant to our audit objectives and evaluated their design. We tested the effectiveness of these controls over ARP deadlines and the timeliness, accuracy, and completeness of grant reimbursement payments.

Additionally, we performed the following procedures.

Reimbursement Rates

We obtained, sampled, and examined MSBA's 2013, 2014, and 2015 calendar year reimbursement rate calculation spreadsheets, along with data from the Massachusetts Department of Revenue (DOR) and Department of Elementary and Secondary Education (DESE), to validate the completeness of the MSBA reimbursement rate calculation spreadsheets and the accuracy of the reimbursement rate calculations. Specifically, we selected a nonstatistical random sample of 50 school districts/municipalities out of 439 in calendar year 2013, 50 school districts/municipalities out of 438 in calendar year 2014, and 50 school districts/municipalities out of 438 in calendar year 2015 (up to June 30, 2015) and verified completeness by comparing the sample of districts from MSBA's reimbursement rate calculation spreadsheet to the DESE list of all school districts in the Commonwealth. Because this was a nonstatistical sample, we did not project the results of our testing across the entire population.

In addition, we verified that the reimbursement rate for each sample was accurate by performing a recalculation of the reimbursement rate. We also compared the DESE and DOR data from the MSBA reimbursement rate calculation spreadsheets to DESE and DOR source documentation. Finally, we compared the formula used in the calculation spreadsheet for each sample to the guidance set forth in Section 10 of Chapter 70B of the General Laws.

ARP

We obtained, reviewed, and sampled a list of all accelerated repair projects that were substantially completed during our audit period to ensure that each sample was eligible for acceptance into the ARP and completed within the recommended 18-month timeframe.² Specifically, we selected a nonstatistical random sample of 20 accelerated repair projects out of a total of 28 in fiscal year 2014 and 10 accelerated repair projects out of a total of 41 in fiscal year 2015 and verified that each project was substantially completed within the 18-month timeframe. Because this was a nonstatistical sample, we did not project the results of our testing across the entire population.

Grant Payments

We obtained a list of all grant payments made during the audit period and, using a confidence level of 90% and an upper error rate of 10%, selected a statistical random sample of 24 out of a population of

2. MSBA established the 18-month window for ARP projects to be completed to enable the orderly and efficient flow of projects through the MSBA construction management group and facilitate adequate project oversight.

1,544 grant payments processed from July 1, 2013 through June 30, 2015. We then reviewed supporting documentation for each of those payments for eligibility and accuracy. Specifically, we compared details such as district name, line-item costs, and project number from signed and approved hardcopy payment request documents to Pro-Pay, a “pay as you build” progress payment system that MSBA uses to receive, review, and approve reimbursement requests made by the school districts. Additionally, we reviewed each line item’s cost on the sampled payment requests to ensure its eligibility for reimbursement. Finally, we verified that the payments were accurately and promptly processed and recorded by the bank.

Data Reliability

We used Pro-Pay to obtain information about grant payments made during our audit period. We determined the reliability of data obtained from Pro-Pay by observation and by comparing Pro-Pay data to other sources for agreement to test certain general information technology controls. We determined that the data were sufficiently reliable for the purposes of audit testing.

APPENDIX

Section 3 of Chapter 70B of the Massachusetts General Laws

The Massachusetts School Building Authority's enabling legislation, establishing the authority's specific powers, reads in part as follows:

The authority shall establish general policy and review standards regarding school building construction, renovation, maintenance and facility space and administer the school building assistance program in accordance with this chapter . . . and coordinate the distribution of school facilities grants in accordance with this chapter. . . .

Specific powers of the authority shall include, but not be limited to, the following:

- (a) review, approve or deny grant applications, waivers and other requests submitted to the program; review, approve and recommend changes to grant payment schedules or suspend said schedules for program projects such as refinancings, audit findings and such other circumstances that may warrant such action;*
- (b) provide architectural or other technical advice and assistance, training and education, to cities and towns or to joint committees thereof and to general contractors, subcontractors, construction or project managers, designers and others in the planning, maintenance and establishment of school facility space;*
- (c) recommend to the general court such legislation as it may deem desirable or necessary to further the purposes of this chapter;*
- (d) develop a formal enrollment projection model or consider using projection models already available;*
- (e) to apply for, receive, administer and comply with the conditions and requirements respecting any grant, gift or appropriation of property, services or moneys;*
- (f) to enter into contracts, arrangements and agreements with other persons and execute and deliver all trust agreements, grant agreements and other instruments necessary or convenient to the exercise of the powers of the trust;*
- (g) to borrow and repay money by issuing bonds or notes of the trust, to apply the proceeds thereof as provided in this chapter and to pledge or assign or create security interests in any revenues, receipts or other assets or funds of the trust to secure bonds or notes;*
- (h) develop a project priority system;*
- (i) collect and maintain a clearinghouse of prototypical school plans which may be consulted by eligible applicants;*

- (j) determine eligibility of cost components of projects for reimbursement, including partial or full eligibility for project components for which the benefit is shared between the school and other municipal entities;*
- (k) establish appropriate rules and regulations as may be necessary to carry out the purposes of this chapter;*
- (l) prepare an annual budget for the administration of the program;*
- (m) collect and maintain data on all the public school facilities in the commonwealth, including information on size, usage, enrollment, available facility space and maintenance;*
- (n) perform or commission a needs survey to ascertain the capital construction, reconstruction, maintenance and other capital needs for schools in the commonwealth.*