

Wayland Public Schools

**Agreed-Upon Procedures Engagement
of the Wayland Public School's Financial Activity
For Fiscal Years 2007 through Fiscal 2012**



August 27, 2013

Wayland Public Schools
Wayland School Committee
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To the Honorable School Committee:

We have performed the procedures enumerated below, which were agreed to by the Wayland Public School Committee, solely to assist the District with an evaluation of the past performance, systems of internal controls and compliance with the Massachusetts General Laws and regulations as related to the School's revolving accounts, student activity accounts, principal discretionary accounts and program discretionary accounts for the period July 1, 2006 through June 30, 2012. The School's management is responsible for the administration and system of internal controls surrounding these funds and accounts. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The General Fund School accounts, Capital Projects School accounts, School Lunch accounts, Circuit Breaker Grant accounts and Special Revenue School Grant accounts were not included as part of this engagement.

The agreed-upon-procedures applied are listed below. Due to the nature of the accounts the specified procedure may not have been applicable in all instances. The procedures were to:

- Identify and document the purpose of the account.
- Document the financial controls used to maintain the account.
- Interview the appropriate employees responsible for maintaining the account.
- Report any identified noncompliance with laws and regulations.
- Report any findings that place School resources at risk.
- Examine a sufficient number of deposits to determine if they are supported by adequate documentation and authorizations.
- If the program is fee based, document the process for establishing the fee charged.
- Document the billing, collection and abatement process.
- Document any practice or process for waiving fees.
- Test a sufficient number of abatements or waived fees for compliance with documented policies.
- Complete a proof of total revenue by multiplying the fee times the participants and compare the calculated expected revenue to the amount reported in the ledger.

- Examine deposits from grants, gifts or scholarships and document whether the deposit was made to a legally established account for that purpose.
- Examine a sufficient number of vendor expenditures to determine if they are supported by adequate documentation and authorizations.
- Examine a sufficient number of payroll or similar payroll type payments, such as stipends, to determine if the payments are in compliance with federal, state and Town laws, regulations and established procedures.
- If a significant number of compliance violations are found, complete a detailed listing of the transactions by type of violation.
- Document the policies and procedures for allocating fringe benefits and indirect costs to the revolving funds.
- Test the actual allocation for compliance with the documented policies and procedures.
- Examine a sufficient number of transactions to determine if there is adequate support to document compliance with procurement laws and regulations.
- Examine 100% of payments made to “cash” to determine if they are supported by adequate documentation and authorizations.
- Complete a detailed schedule of all checks made out to cash and include the person or business that endorsed the check.
- Examine 100% of ATM withdrawals to determine if they are supported by adequate documentation and authorizations.
- Examine 100% of payments made by a debit or credit card to determine if they are supported by adequate documentation and authorizations.
- Examine a sufficient number of expense reimbursements made to any employee responsible for signing the checks, maintaining the accounting records or administering the program to determine if they are supported by adequate documentation and authorizations.
- Report on any findings of noncompliance and questioned costs.
- Run specific extraction reports from the MUNIS ledgers for all payments made from the School Accounts to any checking and savings accounts maintained outside of MUNIS
- Examine a sufficient number of the payments made from School Accounts to any checking and savings accounts maintained outside of MUNIS to determine if they are supported by adequate documentation and authorizations.
- Examine journal entries between funds that are over \$10,000 to determine if they are supported by adequate documentation and authorizations.

Several of the procedures require the examination of “a sufficient number” of transactions. The sufficiency of the number of transactions examined is to be based on each population of transactions and may be agreed to between the Town and the audit firm. The procedures have been developed to focus the work on areas that are considered high risk for fraud or asset misappropriation.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the special revenue funds, student activity accounts and discretionary bank accounts. Accordingly, we do not express such an opinion. Had we

performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Wayland Public Schools and is not intended to be and should not be used by anyone other than this specified party.

A handwritten signature in black ink that reads "Powers & Sullivan, LLC". The signature is written in a cursive, flowing style.

Powers & Sullivan, LLC

Findings and Recommendations

This section of the report will be formatted to discuss each program and include specific recommendations for that program.

Student Activity Accounts

General Information

Each of the Town's five schools has student activity accounts that have been maintained on the Town's general ledger system MUNIS and these activities are authorized by M.G.L. Chapter 71, section 47. The student activities are managed by using both a Student Activity Agency interest bearing bank account under the custody of the Town Treasurer and a Student Activity Checking bank account under the custody of the School Principal. The combined total of these accounts represent the balance held in trust on-behalf of each student organization.

The law requires that all student activity deposits be made only to the Treasurer's interest bearing account. The Principal's Checking account deposits are limited to the transfer of funds from the Treasurer's account. Disbursements can be made from either account. When a disbursement is made from the Principal's account, the Principal will request a periodic replenishment of funds to restore the account back to the maximum limit established by the school committee. The Principal is required to provide original documentation supporting the disbursements. A transfer of funds from the Treasurer's account to the Principal's account must be completed through the warrant process.

Recent Attestation Engagement of the Student Activity Accounts

The Wayland Public School's engaged the Town's Independent Audit firm, Melanson Heath & Company, PC, to conduct an agreed-upon-procedures engagement for the Student Activity Accounts for fiscal years 2011 and 2012. The report was completed on January 3, 2013 and contained many findings and recommendations. We reviewed their report and based on our testing for the same two fiscal years we are in agreement with their findings and recommendations.

Bank Accounts Maintained Similar to Student Activities not Authorized

In addition to the student activity, each school principal maintained bank accounts that were known as principal discretionary accounts. The banking activity was not reported on MUNIS. The activities conducted were not in compliance with laws and regulations. All of these accounts were ultimately closed during fiscal year 2011 and any residual funds were turned over to the Treasurer. We have reported our findings on these accounts later in this report.

Monthly Treasurer Reconciliation Process

The Treasurer established both a principal's checking account and a money market account for each school in accordance with the law. Although they were properly established, Wayland did

not establish policies and procedures to be in compliance with the law. The process used to replenish the checking account created a serious deficiency in internal controls due to the fact it was not designed to follow the law. The following describes the monthly process.

- Receipts received at each School were deposited into their respective money market account during the month in compliance with the law. However most times the School did not provide the Treasurer with documentation to support the deposit. Not submitting supporting documentation was not in compliance with the law and sound business practices.
- Checks were paid from the checking account during the month by the School Principal who entered the activity in Quicken, excel or manual accounting ledger. This was in compliance with the law.
- If the checking account balance was depleted, the Principal would make a request to the Treasurer to transfer funds from the money market fund to replenish the checking account balance. The transfer did not represent the actual value of the checks written but instead was usually an amount in even thousands. The law required that the request would include all original invoices to support the request. The request would be processed through the warrant process which would require a multi-layered approval process of the expenses that were made. The process used by Wayland circumvented these procedures and was not in compliance with the law.
- Once a month the Treasurer and his staff would review the bank statement activity and summarize the deposits and payments that cleared the bank accounts. A summary entry for the month's activity would be posted by the Treasurer to MUNIS. Although this accounting procedure would record tie the bank statement activity to MUNIS it did not comply with the law.
- The Treasurer would print out monthly MUNIS reports to tie in the cash balance to the bank.
- Even though many procedures were not in compliance with the law, the Treasurer's monthly process was organized and documentation of excel files, MUNIS reports, bank statements, transfer requests and similar items were available for review in a monthly package. The documents that supported the individual checks and deposits were missing.

This process has been in place for well over 10 years. The actual procedures only provided a methodology to post summary banking transactions that tied to the MUNIS ledger. It did not allow for any review by management. Deficiencies in the process included, but are not limited to:

- The MUNIS ledger only included summary activity that did not allow management the opportunity to review the actual transactions.

- The MUNIS ledger only reported banking transactions that cleared and therefore uncashed checks were not reported until they were cashed.
- The process in place that reconciled MUNIS to the Quick Books, excel or manual records maintained by the Principals was either not completed or was made more difficult due to the system in place.
- Our testing of the supporting documentation for deposits and disbursements produced mixed results between schools. We believe the real issue was not the fact that each school did not maintain consistent support of the transactions but instead that the documents were not maintained centrally by accounting, treasury and school business offices. These offices are required to approve and account for all transactions and as such should require that the Principal's provide sufficient evidence to approve each transaction. The law did not intend that student activity accounts be exempt from the same level of documentation required for any other deposit or disbursement from other Town/School activity. For example, the High School would not expect a bill to be approved and paid if they did not provide any form of documentation. However the reimbursement process in place to replenish the principal's checking account did not require the submission of documentation. We believe there was never any meaningful review or approval of the reimbursements.

In order to be in compliance with the law, each school would be expected to submit a reimbursement request that listed all disbursements made with original invoices attached. The school business office, Superintendent and School Committee would then be able to review, approve or disapprove the reimbursement as part of the next warrant. Once approved the reimbursement would be processed and approved by the Town in the same manner as any other warrant.

- Each student activity is required to be authorized by the School Committee before a Principal can start accepting deposits and making payments. Since the school business office did not receive the detailed support for revenues/expenses from the school Principal, management did not verify that the activities being accounted for by the Principal qualified as student activities approved by the School Committee.
- Since the checking account replenishment process did not require the submission of any documentation supporting the checks written, it is apparent that in most cases there has never been a secondary review and approval of the expenses.

The purpose of the replenishment process is for the transactions to be reviewed and approved in a manner similar to when a normal school warrant or deposit is processed. This process continued through the end of fiscal year 2012.

Our recommendation is to require deposits turned over to the Treasurer include detailed support. Each deposit must have sufficient support for the transaction to stand on its own. Reimbursement requests must list every disbursement made from the principal's checking account; original invoices must be attached; and a form that documents the student activity

purpose, signature of the principal, student liaison and student activity advisor be submitted as part of the package. We reviewed the Wayland Public School Student Activity Accounts Guidelines and Procedures dated September 10, 2012. If the School implements all of the new procedures and guidelines required, we believe that the deficiencies noted above will be substantially resolved. Per discussion with the School Business Manager these procedures have been implemented in fiscal year 2013.

We have found that during the first year of implementing major changes to a process that many refinements may be in order to fit into the internal control structure and organization unique to Wayland. In order to continue to remain relevant, the guidelines and procedures should be updated each year for refinements to the process or systems. We also recommend that you consider the following additions and changes to the manual as part of the first year evaluation.

- An annual audit is required by the law and your manual states that this can be conducted by either the Town Accountant or School Business Manager. We believe this procedure can be enhanced if there was a requirement that the audit be concluded during a certain timeline and that the results of the audit are discussed with the Principals, staff and Superintendent. The audit report, findings and recommendation for changes should be forwarded to the School Committee, Town Accountant and the Town's Independent Audit firm.
- The annual audit tests should be designed to verify that the procedures required by the School Activity Manual are being followed in practice. The audit program utilized each year should be added as a section of the manual. If the audit determines that there are compliance violations, the auditor will need to determine the reason. It may be that the initial procedures were not practical which then may require changes to a process. Therefore as part of the completion of the annual audit it should be required that the manual be updated for process changes. If any significant change is made, the updated manual should be approved by the School Committee.
- One of the findings we will discuss later is the fact that a significant number of programs formerly reported as student activities, were in fact not student activities. We are aware that in fiscal year 2013 the School Committee has approved a limited number of student activity accounts and many other old programs have been moved to special revenue revolving, gift or grant funds in MUNIS. What you will find is that the level of activity will decrease significantly which may lead to changes to how activities are managed.
- We believe that internal controls over expenditures are strengthened when a vendor is paid through the normal warrant process where several levels of review and approval occur before a payment is made. Several layers of approval allows for an expense to be questioned and held up before a check is issued. Currently, when a Principal makes a payment the check has already been cashed before any type of management review has been completed. The new process that began in FY13, and continues into FY14, requires the replenishment request be processed as a warrant and that full

documentation of what is being replenished is attached, it does not change the fact the vendor has already been paid.

The new manual requires that all payments be made by check issued by the Principal. We recommend that an evaluation of the types, number of checks issued and dollar value of payments be made for the remaining School Committee authorized student activities. We have found that in many instances it is actually easier to process these payments as part of the normal warrant process. The new process for checks over \$1,000 requires the signature of both the Principal and Treasurer. We agree that the Treasurer's signature is an improved control however we do not believe that it is sufficient. The Treasurer's role is not an audit function of the allowable purpose of the expense but instead his role is to issue a check for an expense that has been properly approved by others. At a minimum we believe the School Business Administrator should approve the expense before the Treasurer signs the check. What we have found is that most high value checks are for a planned event or purchase.

- Many student activities include overnight extended trips, overseas programs, field trips or events that are paid for by those participating. It is difficult to predict the actual amount to charge a student that will cover the exact amount of expenses incurred as part of the event. It is more likely that a surplus or deficit will result. We recommend that an Event Financial Report be completed to determine the financial impact. A policy should be considered on how a deficit will be funded or a surplus used.
- As part of many activities there is a requirement to advance funds to a teacher/chaperone for expenses that will require the payment of cash for a variety of reasons. We reviewed several advances and are not aware of a requirement that an expense report be completed. An advance should not be considered an expense as not payment to a third party has been made. The employee receiving the advance would be required to provide a full accounting for the advance when the activity is completed. Sound internal controls would require that the employee complete a report that would list all disbursements and provide documents to support the expense. Any unused funds would be deposited and credited back to the activity. We recommend that a procedure to account for all advances through the use of Employee Expense Advance form.
- For the period tested, the Treasurer did not have sufficient supporting documentation related to the deposits made to the savings accounts. The Treasurer's records should have enough detail that would allow the transaction to stand on its own without having to obtain additional information from the Principal. The new Student Activity Guidelines require the use of a standard form to document each deposit. We recommend that in addition to the completion of the form, the school also provide a listing of each payment received for an activity. For example, if a field trip required a payment from each student the listing should include a roster of the students and detail of the receipts.

Accounting Systems

Before the adoption of the new policies in FY13, school management did not require any standard accounting system. The student activity accounts accounting systems for the High School, Middle School, Claypit Hill, Happy Hollow and Loker were not maintained using the same accounting system and processes.

- The High School maintained all of the activity for both the checking account and money market account on Quicken. The Quicken chart of accounts properly established a stand-alone accounting system that provided an accurate representation of the transactions by individual activity reported.
- The Middle School maintained all of the activity for both the checking account and money market account on Quicken. The Quicken chart of accounts properly established a stand-alone accounting system that provided an accurate representation of the transactions by individual activity reported.
- The Happy Hollow School used Quicken however the ledgers were not maintained in a manner that would adequately document all transactions. Claypit used excel to record the transactions which was adequate due to the fact there are only limited activities and low cash activity. Loker most years had minimal activity and did not maintain any real ledgers. We recommend that all schools use Quicken in a manner similar to the High School.

In FY13 the new Student Activity Guidelines required that all schools use Quicken and standardized the accounting process, reconciliations, documentation and internal controls. If the new guidelines are actually implemented the Student Activity Accounts will be in compliance with the law.

Authorizing Student Activities

We are not aware if the Wayland School Committee or Superintendent had ever formally approved the allowable student activities before September 2012. When we reviewed the accounts being maintained as student activities, we found that each school had many activities that did not meet the definition of a student activity. Therefore the receipts and disbursements would not be in compliance with the Student Activity Law. The types of activities included athletic programs, principal accounts, sunshine funds, library fines and similar activities. Most were allowable school activities but should have been accounted for on MUNIS as revolving, gift or grant funds instead of under the student activity umbrella.

When testing these activities, we focused on whether the activity was for a valid school purpose since it appears that management was aware of their existence but did not elect to maintain these accounts in compliance with the law until recently. We found that, except for the sunshine funds, most of the transactions had a valid school purpose regardless of whether the activity was properly accounted for as student activities. We found the following compliance violations.

- We noted that certain activities were allowed to go into a deficit position. Therefore another activity would be borrowing their funds to cover the deficit. Since all student activity funds are for a specific purpose and the principal has a fiduciary responsibility to each account a student activity account should never be allowed to spend more funds than available. We recommend that the school adopt a policy to prohibit the payment of any bill that would place the account in a deficit. The new guidelines adopted such a policy.
- When we examined cancelled checks we noted different handwriting for the principal's signature. Many times a notation would be made on the check that stated the check was only to be used by a certain person. Most of these types of checks were used to purchase supplies or payment to a museum or park for tickets on a field trip. We understand that the principal does not attend every field trip however internal controls are compromised if blank checks are handed out to teachers. We do not believe that blank checks should ever be used to purchase supplies. We recommend that the schools use vendors for supplies that will invoice the school after the purchase is made. We recommend that every effort be made to work with a field trip venue to determine the cost of attending the event where the principal can prepare the check for delivery by the teacher. If that is not possible the principal should fill in the date, payee, memo and sign the check and turn the check over to the teacher authorized to fill in the amount. The teacher should be required to return to the principal the receipt equal to the amount of the check on the next business day.
- During our review of the deposits made to the student activity accounts we noted that some deposits were from checks received from school appropriations to reimburse the student activity account. The purpose of the student activity account is only for student activities and can never be used to circumvent the warrant process. We recommend that student activity funds never be used in the future for any non-student activity purpose.
- Our review noted that an inordinate number of checks were for the purpose of reimbursing school employees for minor expenditures. We recommend that each school evaluate the need for employees to make purchases on be-half of the school. Employees should be required to obtain written approval from the principal before making any purchases. For all employee reimbursements a standard monthly Expense Reimbursement form should be completed and only expenses that are supported by receipts should be approved for reimbursements. We expect this type of reimbursement in FY13 and forward to be minimal due to the fact the School Committee significantly reduced the number or approved activities.
- We noted in our review that various stipends were paid directly from the principal's checking account for proctoring exams, supervising field trips and similar purposes. The payment of stipends is required by IRS and Department of Revenue regulations to be processed as payroll and not as direct payments to the employee. We recommend that any stipend paid to an employee from an authorized student activity account be made through payroll and charged directly to the Student Activity MUNIS account. The

Treasurer will fund this pay by transferring funds from the money market account to the general treasury. We recommend that the School determine the stipends paid in the past to employees and file amended W-2's. We have been notified by the Superintendent the amended returns are in process.

- We noted that some payments from the principal's checking account directly to individuals may have required the filing of IRS form 1099. Even with the adoption of the new guidelines the process of identifying and filing 1099's is extremely difficult when payments are made from the principal's checking account. In order to be in compliance with 1099 reporting requirements, we recommend that all vendors that would require 1099 reporting be paid from MUNIS and funded directly from the money market account.
- We noted that there were many advances made for various purposes where a final accounting of the advance was not required. IRS regulations on expense reimbursements differentiate between accountable and non-accountable plans. If the employee is not required to complete an Expense Report to fully account for the business purpose of the advance and return any unspent funds, then the IRS would require the School to report the advance as W-2 income. If the employee completes an Expense Report and returns any unspent advances then it is an accountable plan with no tax impact on the employee or employer. For example, we noted that over \$20,000 of advances to individuals were made for the purpose of paying for referees for tournaments and summer leagues. Payments should be made directly to referees by a Town/School check and not by check or cash by the coach. We are not aware that the completion of an Expense Report was required and unspent funds returned. The school was at risk that unspent funds have not been returned and the required tax filing for an unaccountable plan was not made. The employee was at risk that the advance would be considered income. We recommend that a policy be adopted that requires an Expense Report be completed for all advances and any unspent funds be returned. The employee is responsible for supplying original documentation to support all expenses. We also recommend that advances be prohibited for the purpose of paying cash to a vendor.
- We noted that charitable contributions have been made from various accounts over the years. If the charitable contribution is made from a valid student activity accounts then the payment is allowable. The reason the payment is allowable is the fact that the Town Treasurer is holding student funds in an agency capacity and these are not considered Town/School funds. The Department of Revenue has issued an opinion and cites the Massachusetts Constitution that prohibits public funds or property from being donated to a charitable, religious or private organization, no matter how worthy. The majority of charitable donations came from what I would consider student activity accounts. However we are recommending that all future charitable contributions be reviewed by the School Business Administrator before the payment is made.

Our overall recommendation is to evaluate all the activities accounted for as student activities and require the School Committee to formally approve each activity. All unspent balances of an

activity that was not approved as a student activity would need to be transferred to the appropriate school special revenue fund on MUNIS. We are aware that in fiscal year 2013 the School Committee has formally approved a limited number of student activity accounts and many other programs have been moved to special revenue revolving, gift or grant funds in MUNIS.

Principal Discretionary Accounts

Under past practices, each of the Town's five schools were allowed to maintain bank accounts outside of the Town's ledger and not under the custody of the Town Treasurer. These accounts were closed in either March or April of 2011 and any remaining funds were transferred to the custody of the Town Treasurer. The scope of this portion of the engagement was to complete the agreed-upon-procedures for the activity in each account from the start of FY07 until each account was closed.

All of these accounts were not in compliance with laws and regulations and were used by the Principals without any oversight. The lack of any permanent accounting system with organized supporting documentation of most of the transactions is a serious breach of financial controls. We cannot make specific findings on transactions that we cannot review, therefore there may be other transactions that we are not aware of that would be considered a significant violation of laws and regulations.

Claypit Hill Elementary School

The activity of this account was partially recreated in various Excel worksheets, however there was information missing. We organized the transactions in a manner that allowed us to select transactions for testing and focused on those that were considered the highest risk. Upon review of the transactions we did not consider any specific transaction to be high risk. Various forms of support exist however we were unable to obtain support for many transactions. On average there were 20 deposits and 100 checks written each year that total approximately \$15,000 per year. Receipts are comprised of fundraising activity, donations received to support Haiti relief, small grants, PTO funds and other receipts.

The activity was not significant and the documentation was weak and non-existent in some cases. However from the information available we were able to determine that most of the activity related to library lost books, the principal's sunshine fund and administration funds. There is a possibility that funds were spent on purposes other than school related however we do not believe that it is cost effective to conduct further investigation.

Happy Hollow Elementary School

The activity of this account was captured on Quicken, check books and the bank statements, however there were bank statements missing. We were able to tie the Quicken Ledgers to the bank statements. For the period from July of 2006 through March of 2011, when the account was closed, there were \$63,000 of deposits from minor grants, PTO, fundraising, sunshine

deposits, commissions, library revenue, coke funds and reimbursements from Wayland Schools. Withdrawals of \$64,000 were comprised of \$28,000 in checks and \$36,000 in debit card charges. We reviewed all of the bank statements available and all bank charges posted to Quicken and did not find any transactions that had withdrawals of cash. There were 419 debit charges with an average charge of \$87. Most expenses were for coffee for meetings, staff lunches, supplies, sunshine related expenses. As stated earlier a student activity account or a principal discretionary account should never be used to circumvent the warrant process. Supporting documentation for the activity was inconsistent and many times we were unable locate the support. We were required to use the descriptions in Quicken along with the support available to make logical assumptions as to whether the transactions were properly reported. Outside of the fact the principal discretionary accounts were not in compliance with laws and regulations we found no significant issues with this account.

Loker Elementary School

We were not provided with any ledgers for the years under review and banks statements from July 2006 through May 2008 were missing. The bank statements reported a balance of \$11,000 as of May 31, 2008; deposits of \$6,000 through March 2011; disbursements of \$16,000 through March 2011; and a balance closed out to the MUNIS gift account of \$1,750. There was no support for the deposits however we can assume that they received support from the PTO, fund raising and minor grants. We were able to find support for \$3,500 in expenses but the remaining \$12,500 in expenses were unsupported. Of these amounts, 13 checks were made out in even \$100 dollar increments that total \$3,800 and one single check was for \$3,000. The bank statements only listed the check number and amount and did not have copies of the cancelled checks. Over the course of the 4 years we reviewed the \$12,500 in unsupported checks which are considered insignificant and we decided that it was not cost effective to conduct any further procedures.

Middle School

The Middle School maintained a comprehensive QuickBooks file that accounted for both the student activity accounts and principal's discretionary accounts. The procedures related to the student activity transactions are discussed above. All transactions related to the principal's discretionary activity were accounted for in the QuickBooks file in one account. The principal's activity for the period from July 1, 2006 through the closing date of March 23, 2011 reported \$25,000 of revenue received from the PTO, fund raising, commissions and minor grants and \$24,000 of miscellaneous school related expenses. Except for the fact a discretionary account should not exist we did not have any significant findings.

High School Principal Discretionary Account

The High School maintained a comprehensive QuickBooks file that accounted for the student activity accounts and principal's discretionary accounts. The procedures related to the student activity transactions are discussed above. All transactions related to the principal's discretionary activity were accounted for in the QuickBooks file in the principal, library fines, library copier and interest accounts. The principal's activity for the period from July 1, 2006

through the closing date of March 7, 2011 reported \$45,000 of revenue and expenditure activity. Receipts were made up of \$25,000 of grants and gifts, \$5,000 of library fees and fines and \$5,000 of interest earned. Expenditures were comprised of \$26,000 for various minor school related expenses including some stipends, \$1,000 of library related expenses and \$11,000 of expense related to stipends along with other school related expenses. Except for the stipends being paid, we did not have any significant findings.

Special Revenue Funds Maintained on MUNIS

The School maintains many revolving and gift funds that are accounted for within the Special Revenue Funds. Each different account is assigned a unique fund number where all activity related the account is posted. These accounts pose less risk of error or misappropriation due to the fact all payroll and expenditures are all paid through the normal warrant process and requires a multi-level review and approval process. In order for a bill to be paid the supporting documentation must be included.

Gift Accounts

There are nine gift funds that are reported on MUNIS. There was not a significant amount of activity that accounted for in each fiscal year. As such, the tests we conducted focused whether the expenditures were properly authorized.

High School Gift Account

The account was established in MUNIS on March 11, 2011 from remaining \$19,000 of funds transferred from the High School Principal's Discretionary Account. The only activity through the end of FY12 was \$600 of gifts and \$8,000 of expenses. We tested a sample of transactions and have no findings.

Middle School Gift Account

The account was established in MUNIS on March 9, 2011 from remaining \$6,000 of funds transferred from the Middle School Principal's Discretionary Account. The only activity through the end of FY12 was \$1,600 of gifts and \$2,800 of expenses. We tested a sample of transactions and have no findings.

Claypit Hill School Gift Account

The account was established in MUNIS on March 9, 2011 from remaining \$5,000 of funds transferred from the Claypit Hill School Principal's Discretionary Account. The only activity through the end of FY12 was \$1,600 of gifts and \$5,800 of expenses. We tested a sample of transactions and have no findings.

Happy Hollow School Gift Account

The account was established in MUNIS on March 7, 2011 from remaining \$4,400 of funds transferred from the Happy Hollow School Principal's Discretionary Account. The only activity through the end of FY12 was \$3,700 of expenses. We tested a sample of transactions and have no findings.

Loker School Gift Account

The account was established in MUNIS on March 31, 2011 from remaining \$1,700 of funds transferred from the Loker School Principal's Discretionary Account. The only activity through the end of FY12 was \$800 of gifts and \$1,100 of expenses. We tested a sample of transactions and have no findings.

The Children's Way Gift Account

The account was established in MUNIS on January 25, 2012 from remaining \$19,700 of funds transferred from the Children's Way Discretionary Account. The only activity through the end of FY12 was \$400 of gifts and \$3,000 of expenses. We tested a sample of transactions and have no findings.

General School Gifts

The account started FY07 with a balance forward of \$9,400, received \$17,000 and spent \$15,900 through the end of FY12. We tested a sample of transactions and have no findings.

The Haney Gift

The account began in FY07 with an initial gift of \$25,000 and a second gift in FY09 of \$12,500. Expenses were limited to \$15,100 in FY07 and \$19,900 in FY09 leaving a balance of \$2,500 from FY09 through the end of FY12. We tested a sample of transactions and have no findings.

Technology Gift

The account started FY07 with a balance forward of \$2,400 and then spent \$2,400 through FY08. A \$3,000 gift was received in FY10 and spent \$3,000 in FY11 leaving no remaining funds at the end of FY11. We tested a sample of transactions and have no findings.

Revolving Funds

E-Rate Revolving

This is a program established to assist schools obtain affordable telecommunications and internet access. The funding comes from a universal service fee charged to telecommunications companies of which Wayland received approximately \$25,000 per year since FY08. The Technology Department utilized \$23,000 of these funds per year to offset these types of expenses. At the end of FY12 \$15,600 remains unspent. We tested a sample of these transactions and have no findings.

Lost Books Funds

The High School, Middle School, Claypit Hill School and Happy Hollow School each have a separate fund in MUNIS for their lost books. Revenues are derived from charging a fee to students who lose or damage text and library books. Each school charges the expense incurred to replace the books to this fund without further appropriation. Prior to March of 2011 these funds were maintained either as student activity or principal discretionary funds. In total \$19,900 was transferred to MUNIS in March 2011, \$5,000 of fines were collected through June 2012 and \$9,100 of expenses occurred. We tested a sample of these transactions and have no findings related to the transactions. We noted that the June 30, 2011 restated adjustment proposed by the Abrahams report to close out the \$20,819 ending balance to the General Fund was not made. The Town's CFO would not allow this entry due to the fact the fiscal year was closed. As they stated in their report, the intent of this fund is to use this fund first to replace lost books and theoretically the balance should be zero at the end of each year. However the timing of fees received and books replaced may leave a minor fund balance at the end of the fiscal year. We recommend management monitor the balance at the end of each year to make sure the balance does not grow.

High School Parking

Parking spaces are available to students that pay an annual fee. The purpose of the fee is to offset cost of supervision, repairs and similar allowable costs. With the opening of the new high school the number of spaces increased significantly in FY12. The fund started FY07 with a balance of \$25,000 and ended FY12 with a balance of \$3,000.

Total revenue for the 6 year period was \$220,000. We reviewed the process for collecting the revenue and found the system to be sound. Our revenue testing did not identify any findings. As part of the budget process the school would approve a series of budget offsets that would charge certain special revenue funds a fixed amount and reduce expenses in the general fund. For FY07 through FY10 \$145,500 was charged as an offset expense. In FY12 a parking lot attendant was paid \$29,000 from this account. In FY12 the School Committee approved an allocation of \$60,570 to assist in the cost of paving the parking lot. Direct charges over this six year period were only \$7,000. We tested these charges and had no findings.

Transportation Fees

The School began collecting transportation fees in June 2009 for the FY10 school year. The purpose of the fee is to offset a portion of the cost of transportation budgeted in the general fund. Therefore, at the end of each fiscal year a large fund balance of fees collected for the next fiscal year will be carried forward into the following year.

Total revenue for the 3 year period was \$714,000. We reviewed the process for collecting the revenue and found the system to be sound. Procedures are in place for collecting past due amounts and a formal process is required to waive any charges. Our revenue testing did not identify any findings.

Each year starting in FY10, the school approved an offset charge that transferred \$289,000 to the general fund. In FY12 \$247,000 of accumulated surplus was transferred back to the general fund based on the proposed adjustment from the Abrahams Report. Direct payroll and vendor expenses were only \$21,000 for the three year period. Our expenditure testing did not identify any findings. The fund has accumulated a surplus of \$157,000 at the end of FY12 which represents FY13 fees collected advance during May and June of 2012.

Wayland School Community Programs (WSCP)

The WSCP runs six programs that provide a variety of after school activities. The programs are district-wide, administered by the Loker School principal and are offered throughout the year. Each program charges a fee for participation.

Before and After School Education Program (BASE)

BASE is a tuition based program taught by teachers for students from kindergarten through grade 8.

The before school program is offered at the Loker, Claypit Hill and Happy Hollow schools. Tuition is based on a daily rate and can range from \$12.00 to \$15.70 (current rates) depending on grade level and contract versus drop-in rate schedule.

The after school program is offered for grades K - 4 at the Loker, Claypit Hill and Happy Hollow Schools. For grades 5 - 8 the program is at the Middle school and the 5th grade students from Claypit Hill and Happy Hollow are bused to the Middle school. Tuition is based on a several factors. Drop-ins are not allowed and there is a two-day minimum. Enrollment can be from 2 to 5 days per week and options for pick-up at either 4:30 or 6:00 each day. These options are factored into the tuition schedule and the daily rate can range from \$14.75 to \$50.75 (current rates) depending on grade level.

The program began FY07 with a balance of \$159,000 and ended FY12 with a balance of \$465,000.

Revenues were \$5,800,000 for the six year period under review and averaged \$970,000 per year. The staff at the program has a system to control the billing and collection process that is working well. They reconcile the attendance to the actual revenue received and deposited. We tested the reconciliation and deposits and did not identify any findings.

This program is instructional and therefore payroll represented 70% of the \$5,500,000 in total expense. Each year there was a calculation of indirect costs and offsets charges that represented 25% of the total expense. We tested these expenses and did not identify any findings.

The remaining 5% of expenses were all minor expenses for an average annual expense of \$47,000. Our testing of these expenses identified the following findings:

- The BASE and PEGASUS programs maintained a combined discretionary bank account that was outside the controls of the Town and School. This account spent funds without any supervision or secondary review. Every year a series of checks were issued from the revolving fund to the vendors Wayland School Community and Pegasus Summer Program which funded the discretionary account. Over the six year period we were able to verify that \$31,000 of checks to these vendors was deposited into the discretionary account. A total of \$43,000 was deposited to the discretionary account. Most of the

checks stated they were reimbursements and some even dollar amounts stated they were for petty cash. See below for further findings on the discretionary account.

- The employees purchased a significant number of low value items and were reimbursed for the purchase. Instead of completing a monthly expense report it appears that checks are written to reimburse each and every small purchase.

We recommend that the management of the BASE program determine why there is a need to have so many small purchases made by the employees instead of purchasing supplies in bulk through the normal warrant process. If there is a need to have an employee purchase a supply then there should be a policy established that requires the submission of a monthly employee expense report. This will reduce significantly the paperwork and number of checks issued.

The discretionary back account has been closed however there were many references on MUNIS for checks issued for the discretionary accounts to petty cash. Petty cash accounts can be maintained if they are properly authorized and need to be closed at the end of each fiscal year and then authorized again for the next year. We recommend that if any petty cash accounts are still being maintained they should be closed out and any remaining funds deposited back into the revolving account. If it is determined that a petty cash account is warranted, we recommend the school consult with the Town Accountant on Wayland's procedures to establish the account.

In FY12 the program spent \$849,000 and the ending balance was \$465,000 which equates to a 55% level of reserves. This type of program is not subject to large unexpected expenses where a substantial reserve would be prudent. If the program experienced a reduction in enrollment the school can reduce the staff accordingly. We recommend that the school evaluate the fee structure along with whether all expenses available for allocation have been charged to the program. In addition, the School Committee should consider establishing a financial policy on the level and use of reserves for expanded programs or capital needs.

Pegasus Summer Program

The Pegasus is a six-week summer program for children, ages three through the start of eighth grade. The program provides a variety of age based activities. The program has two three-week sessions, offer both half-day and full-day options and includes an extended hours option. The fee charged is dependent on the options selected. Similar to the BASE program the primary cost is payroll related for on-site staff along with allocated costs and supplies. Unlike BASE, the summer programs include a number of field trips which increase the direct expenses.

The program began FY07 with a balance of \$226,000 and ended FY12 with a balance of \$261,000.

Revenue was \$1,485,000 for the six year period under review and averaged \$247,000 per year. The staff at the program has a system to control the billing and collection process that is

working well. They reconcile the attendance to the actual revenue received and deposited. We tested the reconciliation and deposits and did not identify any findings.

This program is instructional and therefore payroll represented 76% of the \$1,450,000 of total expense. The charge for indirect costs and offsets charges represented 7% of the total expense. We tested these expenses and did not identify any findings.

The remaining 17% of expenses were field trips and minor expenses for an average annual expense of \$40,000. Our testing of these expenses identified the same findings as detailed in the BASE section.

In FY12 the program spent \$219,000 and the ending balance was \$261,000 which equates to a 119% level of reserves. The FY06 balance forward was \$225,000 which makes up the majority of the current surplus. Therefore the current fee and cost structure may not need to be adjusted. We recommend that the school evaluate the fee structure each year as a sound business practice. In addition, the school committee should consider establishing a long-term financial policy on the level and use of reserves for expanded programs or capital needs.

BASE and Pegasus Joint Discretionary Bank Account

The BASE and Pegasus maintained a joint discretionary bank account.

The account had \$43,000 of deposits since June 2006 of which \$31,000 came from BASE and Pegasus' revolving funds and the remaining \$12,000 of deposits came in periodically over several years from various sources. The disbursements totaled \$50,000, an average of \$8,000 per year and \$100 per check. We were provided limited documentation to support the activity. This account was closed in November 2011 with the remaining \$567 funds transferred to the revolving funds.

We did have available the bank statements and copies of the checks that cleared. From this information we reviewed the checks issued and have the following findings:

- There were 20 checks totaling \$1,450 that were made out to an employee with the memo entry "petty cash" with no support for the expense. There were 9 checks for \$3,435 made out to cash with various explanations on the memo line. The explanations includes a check for \$350 for 70 tickets for the Pawtucket Red Sox for the 30th; \$1,000 check where the memo is vague but appears to be for the expenses at the game; a \$35 check for the bake sale; a \$50 check for a field trip; a \$200 check for the vacation week program; and 4 checks for \$1,800 that are for petty cash.
- There were 13 checks or direct bank charges that we questioned. A check on 12/13/2006 for \$680 and one on 1/3/2008 for \$705 made out to The Three Gorges where no memo entry was made on the checks and no support available. We believe this is a local restaurant. When the memo field is not used on a check and no other supporting information is available it does cause concern as to the validity of the

expense for a business purpose. Also on 12/18/2006 a check for \$75 to The Three Gorges had gift certificate in the memo field.

- A direct charge to Target for \$50 on 8/5/2009 was made and may also be a gift certificate. The purchase of a gift certificate is similar to writing a check to cash. Controlling how those funds are ultimately used is problematic. Also if the intent was truly a gift then this type of expense would rarely be considered a valid school expense.
- A check was written to an individual for \$130 with the memo salary. There were several other checks written to individuals that were not even dollar amounts and did not have a memo entry. When we reviewed checks to individuals with memo entries the description was normally to reimburse someone for an expense that appeared to be program related and the check was for odd amounts.
- We noted that many checks were signed by different persons using the same name. A key control is only for the person authorized as the signer on a bank account is the only person allowed to authorize a check.

The use of discretionary accounts is a violation of finance laws and regulations and never should have been allowed. School management allowed over \$30,000 of checks processed through warrants to reimburse the discretionary accounts. The lack of any permanent accounting system with organized supporting documentation of most of the transactions is a serious breach of financial controls. We cannot make specific findings on transactions that we cannot review, therefore there may be other transactions that we are not aware of that would be considered a significant violation of laws and regulations. Although the breach was serious, the possible financial impact is minimized due to the low value of the average unsupported checks and deposits.

The Children's Way and the Space Launch Foundation

The Children's Way is the Town's fee based pre-school program. There are morning, full-day, and extended day programs where parents can enroll their children for 3, 4 or 5 days per week. The tuition schedule is based on the type of program selected. Specialists in various areas are available to assist any special needs students enrolled in the program. These services are funded by the general fund.

The program began FY07 with a balance of \$180,000 and ended FY12 with a balance of \$293,000.

Revenue was \$4,700,000 for the six year period under review and averaged \$787,000 per year. The staff at the program has a system to control the billing and collection process that is working well. They reconcile the attendance to the actual revenue received and deposited. We tested the reconciliation and deposits and did not identify any findings.

This program is instructional and therefore payroll represented 69% of the \$4,587,000 of total expense. The charge for fringe benefits, indirect costs and offsets charges represented 26% of the total expense. We tested these expenses and did not identify any findings.

The remaining 5% of expenses were supplies, learning materials, and minor expenses for an average annual expense of \$39,000. Our testing of these expenses identified the following findings:

- The TCW program maintained two discretionary bank accounts that were outside the controls of the Town and School. These accounts spent funds without any supervision or secondary review. Every year a series of checks were issued from the revolving fund to the vendor The Children's Way which funded many of the deposits to the discretionary account. Over the six year period, we were able to verify that \$20,000 of these checks was deposited into the discretionary account out of \$38,000 in total deposits. Most of the checks were for odd amounts which usually indicate a reimbursement for minor expenses. The discretionary account was used like a petty cash account.
- The employees purchased a significant number of low value items and were reimbursed for the purchase. Instead of completing a monthly expense report it appears that checks are written to reimburse each and every small purchase.

We recommend that the management of TCW program determine why there is a need to have so many small purchases made by the employees instead of purchasing supplies in bulk through the normal warrant process. If there is a need to have an employee purchase a supply then there should be a policy established that requires the submission of a monthly employee expense report. This will reduce significantly the paperwork and number of checks issued.

In FY12 the program received \$808,000, spent \$801,000 and the ending balance was \$293,000 which equates to a 37% level of reserves. The FY06 balance forward was \$180,000 which makes up a substantial portion of the reserve. This type of program is not subject to large unexpected expenses where a substantial reserve would be prudent. If the program experienced a reduction in enrollment the school can reduce the staff accordingly. We recommend that the school evaluate the fee structure along with whether all expenses available for allocation have been charged to the program. In addition, the school committee should consider establishing a financial policy on the level and use of reserves for expanded programs or capital needs.

The Children's Way Discretionary Bank Accounts

The Children's Way maintained two discretionary bank accounts.

The accounts had \$68,000 of deposits since June 2006 of which \$25,000 was transferred from The Space Foundation at the date of their dissolution, \$20,000 came from TCW's revolving fund and the remaining \$23,000 of deposits came in periodically over several years. The disbursements totaled \$48,000, an average of \$8,000 per year and \$50 per check. We were provided with limited documentation to support the activity. This account was closed in January

2012 with the remaining funds transferred to the Wayland Public Schools on January 18, 2012. On that date, \$19,699 was transferred to the Children's Way Gift account on MUNIS and \$1,536 was transferred to the Children's Way revolving account.

With the limited information available our analysis of the expenses indicated most were for small petty cash program expenses.

The use of discretionary accounts is a violation of finance laws and regulations and never should have been allowed. School management allowed over \$20,000 of checks processed through warrants to reimburse the discretionary accounts. The lack of any permanent accounting system with organized supporting documentation of most of the transactions was a serious breach of financial controls. We would expect to have findings on these transactions similar to the other accounts but we cannot make specific findings on transactions that we cannot review, therefore there may be other transactions that we are not aware of that would be considered a significant violation of laws and regulations. Although the breach was serious, the possible financial impact is minimized due to the low value of the average unsupported checks and deposits.

The Space Launch Foundation

The Space Launch Foundation was a 501(c)(3) non-profit corporation which was established for the sole purpose of reimbursing the Town for renovations to the space occupied in the Town Building by the Children's Way. At least one trustee is also a school employee and was the signer on the two bank accounts. The final IRS Form 990EZ has been filed for 2011. We have been informed that the corporation has been formally dissolved. Although this is a separate legal organization, its activity is intertwined with Children's Way. Since the end of 2006 until the accounts were closed in November 2011 there was no significant activity. The cash balance on June 30, 2006 was \$31,834; there were five contributions totaling \$25,250; interest income of \$1,100; a reimbursement to the Town for \$10,000; payments for tax services and filing fees of \$3,110; postage of \$5; a payment to attend a conference of \$4,841; a payment to the Children's Way revolving account of \$15,150; and a payment to close the account to the Children's Way discretionary account of \$25,078 to close the account in November 2011.

Instrumental Music

This is a WCSP program where lessons are provided by instrumental music teachers and is partially funded by a fee charged to the students who participate. The school uses the budget offset process to charge a fixed amount to the fund which reduces the music teacher salary expense in the general fund.

The fund started FY07 with a balance of \$0 and ended FY12 with a balance of \$34,000. Total revenue for the 6 year period was \$328,000 and is currently averaging over \$60,000 per year. We tested the revenues and did not identify any findings.

Expenses charged for the six year period was \$294,000. The only direct vendor expenses charged to this fund was \$2,400 in FY12. The approved budget offsets averaged \$40,000 for a 5 year period totaling \$205,000 and no amount was recorded as an offset in FY09. The Abrahams Report proposed an adjustment for FY11 to make the salary offset that was not recorded in FY09. In FY12 this adjustment was made as part of one-time transfer back to the general fund of \$86,000 to reduce the accumulated surplus.

The FY12 ending surplus of \$34,000 is inflated because the balance includes some fees that were prepaid for FY13. In FY13 the offset was increased to \$60,000 to match the increased revenue level. We recommend that the school monitor the revenues received and adjust the offset amount budgeted.

Global Language

The program is a part of the Wayland School Community Programs (WSCP) that offers after school instruction in several languages for kindergarten, elementary and middle school students. The fees and direct expenses are charged to this fund.

FY07 began with a balance of \$5,000 and ended FY12 with a balance of \$47,000. Annual revenues averaged \$25,000 and totaled \$150,000. Direct expenses averaged \$18,000 and totaled \$108,000. We tested the activity and did not identify any findings. In FY12 there was an \$11,000 increase in fund balance and we expect under the current fee and cost structure will continue to grow each year. We recommend that the school evaluate how to best utilize the surplus.

Tutoring

The school offers tutoring services outside of school hours from teachers and private tutors through this fee based program. All fees, payroll and direct expenses are recorded in this fund. The fees are designed to generate a surplus to offset administration, facility and indirect costs.

FY07 began with a balance of \$8,000 and ended FY12 with a balance of \$37,000. Annual revenue averaged \$31,000 and totaled \$186,000. Direct expenses averaged \$26,000 and totaled \$157,000. We tested the activity and did not identify any findings. In FY12 there was a \$13,000 increase in fund balance and we expect under the current fee and cost structure will continue to grow each year. We recommend that the school evaluate how to best utilize the surplus.

Enrichment

This program is part of WSCP that offers a variety of after school activities and tutoring in areas such as music, chess and drama for a fee. The program also provides community education evening classes. Depending on the program the fee will vary. The program began in FY10 and

all fees, payroll and direct expenses are charged to this fund. The fees are designed to generate a surplus to offset administration, facility and indirect costs.

FY10 began with a balance of \$0 and ended FY12 with a balance of \$33,000. Annual revenue averaged \$31,000 and totaled \$186,000. Direct expenses averaged \$26,000 and totaled \$157,000. We tested the activity and did not identify any findings.

FY10 was the first year of operations and generated an \$18,000 surplus. There was no offset charge for other cost allocation budgeted for the first year. FY11 generated a \$16,000 surplus that was reduced to \$11,000 due to a budgeted offset charge of \$5,000. FY12 generated a \$13,000 surplus that was reduced to \$4,000 due to \$9,000 charge from a new cost allocation procedure for the WSCP and Full Day Kindergarten programs. Using FY12 as a base, the current fee structure may not generate a significant annual surplus. However we still recommend that the school evaluate how to best utilize the surplus generated in the first three years.

Full Day Kindergarten

The Full Day Kindergarten Program (FDK) began in FY11 as a two-year pilot program that offered a second session of Kindergarten once the morning session ends at the Loker School. In FY11 the program was limited to two classrooms and expanded to six classrooms in FY12. At the close of FY12 there was \$50,000 in fund balance.

Revenue for FY11 was \$185,000 and for FY12 was \$437,000. The staff at the program has a system to control the billing and collection process that is working well. They reconcile the attendance to the actual revenue received and deposited. We tested the reconciliation and deposits and did not identify any findings.

In FY11 the program was not set up to charge payroll directly to the fund however, expenses were posted to the general fund. An analysis was completed that transferred \$84,000 of payroll expense to the fund. The Abrahams Report proposed an adjustment to reverse a \$15,000 transfer to the METCO revolving fund just to support the METCO program along with an adjustment to reverse \$7,000 of direct expense paid for transportation that were identified as BASE costs. In June of 2012 a correcting adjustment was made. In FY12 management implemented a new cost allocation process for shared expenses such as nursing, transportation, utilities, custodians and other costs for the WSCP/FDK programs. The allocation totaled \$96,000 for FY12. The remaining payroll and vendor expenses were \$370,000. We tested the allocated expenses, payroll and vendor expenses and did not identify any findings.

We are aware that the decision was made to continue the program into FY13. The ending fund balance of \$50,000 is not excessive for a program this large. We recommend that the newly implemented cost allocation system be reviewed each year to reflect any major change in any of the programs included as part of the allocation.

Athletic Revolving Programs

The School accounts for Athletics, Ice Hockey and the Weight Room in the MUNIS revolving funds.

Weight Room Revolving Fund

The Weight Room started FY07 with \$5,814 no other activity occurred until FY12 when this fund was used to pay the weight room coach \$5,227 leaving a balance of \$587 at the end of FY12.

Ice Hockey Revolving Fund

The Boys and Girls Hockey programs are managed by the school athletic department in a partnership with the Wayland Hockey Association Corporation, a non-profit organization. The Athletic Director informed us that the boys pay an athletic fee of \$1,500 and the girls pay \$1,200 directly to the Association for participation in the winter season. The Association uses these fees along with fundraising efforts to contribute funds back to the Ice Hockey revolving funds to pay for coaches, referees, ice time, transportation and other expenses.

We understand this is a long-term relationship but we are questioning why the student athletes are paying a fee to participate in a High School sport to a third party. The school is then dependent on the Association to contribute these funds back to the revolving fund in order to pay for the costs of running the programs. We have found that the normal relationship with an Association/Booster Club would have the Association fundraise and provide assistance to support the program.

Chapter 71 Section 47 of the Massachusetts General Laws is the legal basis that allows an Athletic Revolving fund to be established. We interpret the following excerpt to require all fees paid by a student athlete to be paid directly to the Town Treasurer and not a third party. "All receipts by the committee in connection with the conduct of activities provided for under this section or any other activity not expressly provided for in this chapter but sponsored by the school committee in which participation is contingent upon the payment of a fee by the participant, shall be deposited with the treasurer of such town..."

The Athletic Director was not aware of a formal agreement or memorandum of understanding that documents the operational and financial relationship between the Association and the School. We looked up the Association on the Commonwealth of Massachusetts Secretary of States Corporations Division and its states that the date of organization was 1/31/1994 and the date of involuntary revocation was 6/18/2012. We confirmed these facts with an officer of the corporation. Since the Corporation charter has been revoked, the School may have some risk exposure. We recommend the school consider the value of having a formal agreement with the association or similar booster club and determine the proper compliance with the referenced statute.

The Ice Hockey Account started FY07 with \$26,000 and ended FY12 with \$16,000. Each year the fund received large periodic contributions averaging \$25,000 from the Association that

totaled \$330,000 through the end of FY12. Other revenues only amounted to \$5,000. The \$345,000 of vendor payments were tested and are for valid hockey related expenses for referees, coaches, ice rentals, transportation and other related expenses.

Athletic Revolving Fund

The Athletic Department is funded through a combination of the general fund operating budget along with student participation fees and gate receipts recorded in the revolving fund. Currently the fee is \$250 per high school sport and \$100 per middle school sport with a family cap of \$1,000. Gate receipts fees are free for children and Wayland School Staff, \$5 for students and \$7 for adults. The school budget process uses the offset process to charge the revolving fund and reduce the general fund operating expenses. The revolving fund can also pay for coaches, officials, contracted services, police details, equipment, uniforms, transportation and other related expenses.

The Athletics Account started FY07 with \$314,000 and ended FY12 with a balance of \$10,000. For the period of July 1, 2006 through June 30, 2012 MUNIS has accounted for \$1,652,000 of revenue and \$1,774,000 of expenditures.

We selected revenue from each year for testing and found all to be related to either gate receipts or student athlete participation fees. We did not visit the venues where fees are charged but through discussion with the Athletic Director we would recommend that the ticket sales process be standardized and documented in a manner similar to the guidelines established for student activities.

In FY07, FY08 and FY09 a single \$200,000 offset charge was made to the ledger each year. Similar charges of \$228,500 in FY10, \$258,500 in FY11 and \$439,000 in FY12 were made to the ledger. All of these transactions were examined and total \$1,526,000 or 86% of the total expense. In FY12 the proposed adjustment from the Abrahams report was part of the \$439,176 listed above. The remaining \$247,561 of expenditures was tested and all expenditures tested were allowable athletic expenses. One item to note is that fees that are refunded are reported as an expense and not a reduction of revenue. The amounts are not significant in total but more accurate reporting would be achieved if the accounts charged for refunds were revenue accounts. We were informed that they are being accounted for properly in FY13.

Except for Hockey, the MUNIS ledger combines the activity of all sports and schools into one fund and a few accounts. We recommend that management consider expanding the chart of accounts into transaction specific accounts. For example there can be an Athletic Fund for the Middle School and another fund for the High School. Within each fund a cost center for each sport would be established. Within each cost center revenues would have an account for student fees and another account for gate receipts. Expenses would have a similar set up. This would provide a cleaner audit trail and also will allow management to analyze the activity when establishing fees.

Building Use Fees

The school charges a rental fee to organizations for the use of school facilities as long as the use does not interfere with educational programs. The school facility will only be rented if a custodian is employed to open, close and supervise the building. Other expenses allowable are related to building use and maintenance. Standard forms are used to book a facility that is signed by the renter, principal and facilities department. The fees charged are approved by the school committee.

The account began FY07 with a balance of \$20,000 and ended FY12 with a balance of \$39,000. The revenues were \$107,000 and expenditures for vendor expenses were \$40,000 and payroll for custodians were \$48,000. We tested the activity and did not identify any findings.

The proposed adjustment from the Abrahams Report to close the \$32,000 surplus at the end of FY11 to the general fund was not made. He referenced the lack of evidence that the Town adopted the last sentence of MGL Ch. 40:3 that allows the fund to keep the surplus as the reason for the proposed adjustment. The School is authorized by MGL Ch. 71:71E to retain the surplus and spend the funds without further appropriation. The School Business Administrator confirmed this with Town Counsel and the Department of Elementary and Secondary Education and therefore did not make the proposed adjustment.

School Cable Studio

The School Cable Studio account began FY07 with a balance of \$29,000 and ended FY12 with a balance of \$18,000. The annual revenues are primarily received from the Town's cable providers. A total of \$99,000 was received during FY07 through FY11 with no revenue received in FY12. Only \$67,000 in payroll expenses for the studio operators was paid in FY07 and FY08. There were no expenses in FY09, FY10 and FY11. In FY12 \$21,000 of payroll expenses were paid for the studio operator. No vendor expenses were charged to this fund during the period under review. We tested the activity and did not identify any findings.

METCO Program

The METCO Program is comprised of a State Grant Fund, a revolving fund and a discretionary account.

The METCO state grant fund reported in MUNIS was not reviewed as part of this engagement.

The METCO revolving account was established to receive gifts and donations from the community, corporations and fund raising events to supplement the State Grant funds. The expenditures were for transportation and operational costs. We found that transportation costs were mainly charged to this fund near the end of the year when the State funds were exhausted.

This fund was reported in MUNIS and began FY07 with a balance of \$42,000 and ended FY12 with a balance of \$28,000. Total revenue for the six year period was \$276,000 from all sources

while expenditures were \$290,000. Both the revenues and expenditures had a limited number of transactions and the significant transactions were made to only a few vendors. Transportation expenses were \$201,000 or 70% of all expenses. In addition \$29,000 was payroll related costs to support the program. This left approximately \$60,000 or \$10,000 per year for other operational costs. We noted that various awards were given to students each year which may or not be considered scholarships. Although not a significant amount of money, we recommend that the school adopt a policy that clearly defines when an award should be considered a program expense and when it would be considered a scholarship. A monetary award would normally be considered a form of a scholarship and should be reported as a scholarship and not a program expense. We tested the revenues and expenses and except for the METCO donation error in FY11 that was adjusted as part of the Abrahams report, had no further findings.

METCO Discretionary Bank Account

Similar to the principal's, BASE, Pegasus and TCW programs METCO also maintained discretionary account that was not reported on MUNIS. There was no comprehensive accounting in Excel, QuickBooks or the check book that documented all of the transactions. We needed to summarize the activity using the bank statements to quantify the activity. Similar to the other discretionary bank accounts the supporting documentation for deposits and expenditures were not organized and that many transactions were unsupported. It is estimated that 500 checks cleared from July 2006 until the account was closed in January 2012. In September 2009 a debit card was issued that was used frequently each month and there were at least 100 debit card transactions.

The bank statements reported a cash balance of \$16,000 at June 30, 2006, deposits totaling \$162,000, disbursements of \$177,000 and \$1,000 sent back to the METCO revolving account to close the discretionary account in January 2012. We were not able to determine the source of the revenue except by conversation that they were from the Florence Adler Road Race and other donations. There could have been funds that were received from staff for sunshine purchases or funds donated specifically for scholarships. We do not have any evidence to support the source of funds. The review of this account identified many checks made out to cash, ATM withdrawals of cash and many questionable transactions without any supporting documents. Our findings are as follows:

- There were 25 payments totaling \$20,440 from July 2006 through January 2010 made directly to pay down the Director's personal credit cards. These payments were made either by check or a direct charge to the bank account's debit card. We discussed this activity with the Director who told us that she would purchase items for the program with her personal credit card and instead of completing an expense report she would pay off her credit card directly for only the program related expenses. She stated that she analyzed her credit card bill each month and sent a personal check in for personal charges and included the METCO payment to pay for the program related purchases. There was very little documentation to support the METCO portion of the credit card charges. There were entries on the memo field of a few checks that stated "camera, video camera, tripod, flash drives BJ's" "BJ's, KFC, Christmas Tree, Dunkin" that

indicates that there may be a program purpose but nothing definitive. She stated that she threw out all of her old credit card statements and had requested copies of the statements after our discussion. As of the date of this report we have not been provided the statements. The payment of a personal credit card can never be made directly. If an employee uses a personal credit card for program purposes an expense reimbursement report should be completed with all supporting documentation.

The School Committee requested that we review the credit card statements when they are provided and prepare an addendum to this report.

- There were 4 charges to the debit card to the Cheesecake Factory for gift certificates before the Christmas break and end of the school year that total \$1,165. Another charge for \$139.04 on 12/23/2010 at the Natick Cheesecake factory. As stated in other areas, gift certificates should not be purchased to reward staff and others using program revenue. Program revenue should not be used to pay for staff parties.
- Each year the Florence Adler Run raises funds for METCO that were deposited into the discretionary fund. The funds were used to provide monetary scholarships, lap tops, iPads and similar awards. The Director stated that she and her staff decide on the awards. We found support that listed the award winners that matched most of the monetary scholarships and other awards. However, most scholarships were for \$1,000 while in one year the award to one student was \$5,000. In addition the same memo stated the student received a lap top. We also noted that a check for \$2,000 was issued for her to attend an after school program and was also compensated as a bus monitor. The Director stated that this student was special and helped raise a considerable amount of funds in the discretionary account which was a primary reason the awards were high. We were informed the Florence Adler Run does raise program funds along with scholarship funds and therefore these payments may have a legitimate source, even though scholarship funds should have been deposited with the Treasurer's scholarship funds. When the Treasurer is the custodian and a scholarship committee approves the awards, it minimizes the possibility that the funds are awarded on a basis other than merit, such as the child of an employee, relative or friend. This does not mean that these students cannot receive an award; it just helps minimize any perception problem. In addition, program funds are not meant to financially benefit an individual and therefore should not be used to pay for the attendance at an after school program.

Unlike the other discretionary accounts, there was a significant amount of activity where \$14,036 of manual checks was made out to cash and \$4,330 of atm withdrawals were made. The following summarizes this activity:

- On 1/6/2009 a \$1,200 check was made out to cash with the memo field stating "Inauguration". In our discussion with the Director, she told us that she and several students attended the inauguration and that the cash was used for food, travel, lodging and other expenses. There is no expense report that accounts for the expenditure of cash.

- In May 2007, a \$4,810.45 check to cash was exchanged for a bank check to a parent to reimburse the parent for expenses incurred related to fundraising activity. There was no support of the expenses being reimbursed.
- In February 2011, a \$1,000 check to cash had the memo field entry of “MLK Who Dat Band James Miller Band”. The Director informed me that cash was paid to the band that performed at an event sponsored by METCO. No other support is available.
- The Director informed us that she felt it was necessary to have bus monitors for students that do not return home on the regular bus but went home on a late bus. She paid them a nominal fee and the files did have many forms completed that indicated this was a regular occurrence. The memo field on many of the manual checks did note the students being paid. She stated that she used the atm to withdraw funds for the same purpose. There was \$3,930 withdrawn in cash from the atm at 62 Post Road in Wayland and \$400 withdrawn in Brockton. The Director prepared an incomplete schedule that indicated the monitors who received the funds. It is clear that monitors were paid cash and that various documents support the fact the payments were made however a full reconciliation is not completed. Payments of cash should never be made.
- In March 2007, there was a \$6,000 check made out to Middlesex Bank that was exchanged for a bank check to Beatrice Berry for services related to being the featured person at an METCO sponsored event. Checks of this nature should always be processed as a warrant and posted to the revolving fund.
- In September 2007 a \$1,000 check was issued to a non-profit charitable organization. As stated in a previous section of this report, program funds cannot be used to support a charitable organization, no matter how worthy.
- On 12/27/2011 a \$5,000 check was issued to the Boston Parents Council which is a non-profit organization that supports the METCO program. Per the Director, this was not a charitable donation, but instead a transfer of discretionary funds that she retains the ability to expend on be-half of Wayland METCO. This transfer was just before this account was closed. We recommend that funds raised for METCO purposes be kept within the METCO revolving accounts and not maintained at another organization.
- On 12/24/2009 the debit card was used to purchase \$37 from a Braintree bakery, on 12/26/2009 the debit card was used to charge \$89 at a restaurant in Marlboro and on 7/13/2010 the debit card was used to charge \$57 at a restaurant in Stoughton. These charges were made for either perishable items or restaurants while the school was not in session in communities that are not local. We question whether these are program related expenses. If a School debit card is used in error to make personal purchases then the employee is required to make immediate reimbursement to the school. Since there is no detail to support the deposits we cannot verify if reimbursement occurred.

As stated many times before in this report, the school should never have allowed any of these discretionary accounts to exist and therefore all transactions are in violation with laws and regulation. Since these accounts were not monitored by the school business office the lack of support by the school's accounting professionals can lead to serious breaches in financial controls.

Professional Development and Curriculum Revolving

The Professional Development and Curriculum Revolving funds were used by the professional staff to offset costs related to continuing education of the faculty and enhancement of the curriculum.

The Professional Development Revolving Account began in FY09 and has accumulated a balance of \$36,000 at June 30, 2012 and all activity was reported in MUNIS. Since the fund was reported on the cash basis there was normally a series of deposits that were not received until the next fiscal year. Through the end of FY12 deposits totaled \$97,000 which related to the fees charged to the conference attendees. We tested the deposits and had no findings. Expenditures totaled \$61,000 and there were a limited number of vendors each year. The large expenses were for food and course materials for conference attendees. We tested the expenses and had no findings.

The Curriculum Revolving Account began in FY10 and has accumulated a balance of \$6,000 at June 30, 2012. Through the end of FY12 deposits totaled \$37,000 for fees from attendees. Expenditures totaled \$31,000 for payroll to instructors, course materials and food for attendees to a limited number of vendors each year. We tested the activities and had no findings.

Wayland Public School Foundation Revolving Fund

The Wayland Public School Foundation is a legally separate non-profit 501(c)(3) corporation established in 1983 for the purpose of assisting the students, parents, teachers and staff of the Wayland Public Schools. The Foundation provides grants to the school based on grant applications submitted by Wayland teachers and staff. Each award by the foundation was monitored and required periodic progress reports that were reviewed by the foundation. The process appears to be well managed.

The account began FY07 with a zero balance and ended FY12 with a balance of (\$2,000) which was funded in FY13. Total receipts through FY12 were \$878,000 and total disbursements were \$880,000. Our testing of the activity did not identify any findings.

Gossels Family Academic Excellence

The Gossels Academic Excellence Account began FY07 with a \$191,446 balance and received an additional \$11,113 in FY12. Our understanding was the intent of these funds was to provide the school with additional funding to design programs to challenge students. The fund spent \$4,994 in FY07, transferred out \$186,462 in FY09, received and spent \$11,113 in FY12 and

ended FY12 with a zero balance. This fund was not directly charged for expenses as the \$186,462 transfer to the general fund was equal to the remaining balance forwarded from FY08 to FY09. We understand that the actual expenditures were made in prior years and charged to the general fund. This entry was to close out the fund.

Francis Smith Dignitas Award

The Francis Smith Dignitas Award began FY07 with a balance of \$1,465 and ended FY12 with a balance of \$1,610. The only activity has been the addition of interest income. We recommend the school investigate the purpose of this fund and spend the remaining funds.

High School Student Computer Maintenance Account

The High School Student Computer Maintenance Account began during FY12 to help offset the cost of computer repairs as a result of the One-to-One Laptop Initiative. A voluntary fee of \$60 was charged to students that amounted to \$1,020 in revenue, which has been the only transaction. In FY13 the costs of the program will be charged directly to this account.

High School Activity Fees

Three receipts were received totaling \$3,650 is the only activity. We recommend the school investigate the purpose of this fund and spend the remaining funds.