



Roger L. Putnam Vocational Technical High School

Review of Putnam High School Student Association Account

October 5, 2011

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October 5, 2011

Dr. Alan J. Ingram, Superintendent
Springfield Public Schools
Springfield, Massachusetts

Dr. Ingram:

At the request of the new Principal at the Roger L. Putnam Vocational Technical High School (Putnam), the Office of Internal Audit (OIA) conducted a review of the Putnam High School Student Association checkbook transactions from December 2005 to November 2010.

The accompanying report details our findings and recommendations for improvement. The results of our review have been discussed with officials at Putnam and the Springfield Public School (SPS) central office. SPS responses have been incorporated into our report.

We wish to thank Putnam and SPS central office staff for their cooperation and courtesies extended to us during our review. This report is not intended to be an adverse reflection of Putnam and its staff, rather it is intended to improve the operating and control environment.

Upon learning of the issues at Putnam, the OIA notified the Audit Committee of the Putnam review and the Audit Committee supported the OIA to change its audit plan to fully review the concerns at Putnam. We would additionally like to acknowledge the support received throughout the audit process from the Audit Committee, the City Solicitor, Mayor, and all other City personnel that assisted us during this review.

Our report can be found on the City's public website at:

<http://www.springfieldcityhall.com/finance/index.php?id=auditor>.

Respectfully submitted,

Mark J. Ianello, CPA
Director of the Office of Internal Audit

Cc: Honorable Domenic J. Sarno, Mayor
Members of the Springfield City Council Audit Committee
Members of the Springfield School Committee
Edward Pikula, Esq., City Solicitor

T.J. Plante, School Chief Financial Officer
Gilbert Traverso, Putnam Principal
Michael Nelligan, Powers & Sullivan, CPA's

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Why the Office of Internal Audit (OIA) Did This Review

A new principal was hired at Putnam during the summer of 2010. Shortly after arriving, he discovered a checkbook which was entirely separate from city and school operating procedures. Uncomfortable with the operating procedures and checkbook activity, he sought guidance from school administrators who in turn contacted the Office of Internal Audit (OIA) for review.

What OIA Recommends

- Close checkbook and follow statutes
- Use city accounting system and implementing student activity module.
- Implement an inventory system for equipment and shop supplies.
- Vocational program operations and financial statements should be reviewed with the Chapter 74 director and the principal on a monthly basis to provide oversight and administrative guidance.
- Collection of cash receipts should be restricted to the main office using MUNIS cash registers.

EXECUTIVE SUMMARY

Roger L. Putnam Vocational Technical High School Review of Putnam High School Student Association Checkbook

We reviewed the Putnam High School Student Association checkbook transactions for the period December 2005 to November 2010. Checkbook activity averaged approximately \$200,000 per year and contained transactions related to student and vocational program activities. Separate state statutes govern student activity and vocational revolving funds; neither statute allows a vocational school principal to operate a checkbook independent from city and school oversight.

What OIA Found

- There were virtually no controls in place over cash receipts and disbursements. The checkbook register contained no record of deposits or carrying balances and the last bank statement reconciled was June, 2003. We were unable to find supporting documentation for many checkbook transactions.
- Computerized record keeping system with monthly reconciliation procedures was discontinued in favor of a manual system with no reconciliation procedures. When the account was closed the bank balance was \$44,704.74 less than the ledger balance.
- We found many large payments were made to employees as reimbursement for items purchased personally by the employees.
- An employee may have purposely deleted records from a school computer to circumvent OIA review.
- There were no inventory records for computers, equipment, shop supplies or donated equipment. We were unable to locate a substantial number of computers and other technology equipment purchased with school and Perkins Grant funding.
- We found an employee operating a school store on behalf of a student organization but daily transactions were never reported to Putnam. The receipts totaled \$135,428 from 2007 to 2011.
- We referred several incidents to the city solicitor for follow up and to seek reimbursement for the city:
 - \$14,268.55 in vocational program cash receipts were missing.
 - \$1,610.00 was diverted for personal use by two employees.
 - An employee received \$5,441.61 in duplicate travel and expense reimbursements from the City and the Student Association checkbook.

School action taken

- Student association checkbook was closed on November 18, 2010.
- Accounting Manager and Financial Analyst have been hired to implement OIA recommendations.
- School department is currently implementing the MUNIS Student Activity module.



A. INTRODUCTION – HOW OIA GOT INVOLVED

A new principal was hired at Putnam Vocational Technical High School (Putnam) during the summer of 2010. Shortly after arriving, he discovered a checkbook entitled *Putnam High School Student Association* which was entirely separate from the City of Springfield and Springfield Public School's (SPS) operating procedures. Uncomfortable with the operating procedures for the checkbook, he sought guidance from school administrators who in turn contacted the Office of Internal Audit (OIA). The following day OIA accompanied the Principal and SPS Chief Financial Officer (CFO) to Putnam and obtained all records associated with the checkbook. We reviewed checkbook transactions from December 2005 to November 2010.

BACKGROUND

The Putnam High School Student Association checkbook contained transactions related to student activities and vocational program activities. Total checkbook transactions averaged approximately \$200,000 per year. Student activity revolving funds are provided for in Massachusetts General Law (MGL) chapter 71, section 47 (Chapter 66 of the Acts of 1996). Vocational revolving funds are provided for in MGL chapter 74, section 14B. A memorandum was also issued by the state Commissioner of Education to all superintendents on May 31, 1996 notifying them of new legislation (Chapter 66 of the Acts of 1996) to allow school districts to set up checking accounts for use by school principals in spending monies collected through various student activities. He encouraged superintendents to use this new authority to replace any unofficial and unauthorized bank accounts which may be in use in their districts.

See Appendix A.

Highlights of each law are summarized below:

MGL ch.71 § 47 – Student Activity Accounts:

- The School Committee may supervise and control all athletic and other organizations composed of public school pupils and bearing the school name or organized in connection therewith. All receipts shall be deposited with the City Treasurer and held in a separate account and expended without further appropriation.



- The School Committee may authorize a school principal to receive money associated with a student activity and to deposit money with the City Treasurer into a Student Activity Agency Account duly established by vote of the School Committee to be used for the express purpose of conducting student activities.
- The School Committee may authorize the City Treasurer to establish a checking account called the Student Activity Checking Account to be operated and controlled by the school principal and from which funds may be expended exclusively for student activity purposes authorized by the School Committee. Such account shall be used for expenditures only and funds received for student activities may not be deposited directly into such account.
- The School Committee shall vote to set the maximum balance that may be on deposit in the Student Activity Checking Account. The principal shall give bond to the municipality in an amount the City Treasurer shall determine to secure principal's faithful performance in connection with this account.
- Funds up to the maximum balance set by the School Committee shall be transferred from the Student Activity Agency Account through the warrant process to initially fund the Student Activity Checking Account.
- Periodically, to the extent funds are available, the City Treasurer shall reimburse the Student Activity Checking Account to restore the limit set by the School Committee. The principal shall adhere to administrative procedures as the municipal accountant may prescribe.
- There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon by the School Committee and auditor based upon guidelines issued by the Department of Education.

MGL ch.74 § 14B – Vocational Program Revolving Funds:

- Any income received in a fiscal year not exceeding, in the aggregate, fifteen thousand dollars derived from the purchase and sale of products produced in the culinary arts



subject area or any other vocational technical program shall be deposited into a special fund by the School Committee.

- Expenditures may be made for the purposes of such programs by the School Committee without further appropriation provided that funds may not be used to pay the salary of any employee and in any fiscal year no more than five thousand dollars from said funds shall be used in the purchase of equipment.

What OIA found

The Student Association checkbook violated the provisions of the aforementioned statutes. Student activities and vocational program activities were co-mingled into a single checking account under the direct control of the school principal with no oversight by the City Treasurer, School Committee, or school administration. We found no evidence of any bank reconciliations performed since 2003, and the checkbook register contained no record of deposits or carrying balances.

We found a *Putnam Student Activity* manual prepared by a local Certified Public Accountant sometime in the fall of 1999 detailing operating and accounting procedures using *Peachtree* accounting software. Although the manual co-mingled student activities and vocational activities we found financial statements, bank reconciliations and computerized general ledger accounts for each student activity and vocational program. Computerized checks were generated using *Peachtree* software until June 18, 2002. Manual checks were prepared beginning August 13, 2002. We noted a new principal was appointed during the summer of 2002.

The *Peachtree* accounting system was in place from October 18, 1999 until June 30, 2003 when it was replaced by a manual recordkeeping system. The manual recordkeeping system remained in place until the account was closed on November 18, 2010. The manual recordkeeping system was severely deficient. The checkbook register did not contain any deposits, carrying balances or explanations for checks written and the checkbook was never reconciled to the bank statements. Separate manual ledger sheets were prepared for each student and vocational activity. The manual ledger sheets contained deposit and withdrawals however they were also never reconciled to the checkbook or bank statement.



The last check written on the Student Association checkbook was August 16, 2010. The account was closed and the balance was transferred to the City Treasurer on November 18, 2010. The bank balance when closed was \$11,270.95. Manual ledger sheet balances on November 18, 2010 totaled \$55,975.69 of which \$25,801.57 was related to specific student activities and \$30,174.12 was related to vocational program activities. Records were insufficient to enable reconciliation; therefore the school administration chose to apply the cash balance first to the student activities in accordance with the manual ledger sheet balances and the vocational program balances were reduced accordingly. All student activities and vocational program activities are now processed and recorded in the City's accounting system.

Many Putnam vocational program activities allow students to perform work for area businesses and for the general public. Some of the programs such as Automotive Technology, Carpentry and Graphic Communications generated considerable cash receipts for which we found few cash controls. We concentrated our efforts on these larger programs. We were unable to review all of the student activities and vocational programs at Putnam.

Some of the issues we found are summarized below and explained in more detail in our report:

- We found no evidence of School Committee approvals for the student activities and vocational program activities operating at Putnam.
- Receipts for student and vocational activities were not deposited with the City Treasurer.
- There were virtually no controls in place over cash receipts and disbursements.
- Bank statements and general ledgers have not been reconciled since June of 2003.
- Vocational program activity exceeded the statutory limit of \$15,000.
- Numerous large payments were made to employees as reimbursement for items purchased personally by the employees.



- An employee may have purposely deleted records from a school computer to circumvent OIA review.
- An employee was found to be operating a personal business using school property.
- Employees made multiple purchases of supplies from an out of state vendor instead of from local approved vendors.
- Receipts provided for expenditures related to an out of state school project did not equal the amount of cash advanced.
- There were no inventory records for computers, equipment, shop supplies or donated equipment.
- We were unable to locate a substantial number of computers and other technology equipment purchased with school and Perkins Grant funding.
- A lack of building security resulted in the theft of approximately \$25,000 of computer equipment.
- A vendor was selected because of personal preference rather than by using a competitive bidding process.
- We found an employee operating a school store on behalf of a student organization but daily transactions were never reported to Putnam. The receipts totaled \$135,428 from 2007 to 2011.
- We referred the following to the City Solicitor for follow up and to seek reimbursement for the city:
 - \$14,268.55 in vocational program cash receipts were missing.
 - \$1,610.00 was diverted for personal use by two employees.



- An employee received \$5,441.61 in duplicate travel and expense reimbursements from the City and from the Student Association checkbook.
- Several potential ethics violations were also reported to the City Solicitor who has referred them to the State Ethics Commission:
 - An e-mail was sent from a school administrator to a subordinate employee requesting an HVAC employee be sent to their personal residence to repair an air conditioner.
 - An employee requested supervisory approval for time off for subordinate employees to work on private rental property.
 - Employees and former employees were using shop equipment and computers for personal use.



B. AUTOMOTIVE TECHNOLOGY

The Automotive Technology program enables students to perform vehicle diagnostics and repairs in a business-like setting under the supervision of Putnam Automotive Service Excellence (ASE) certified instructors. Customers are billed for the cost of parts plus a 20% administrative fee in lieu of a labor charge. Putnam receives governmental discounts (generally 20% - 50%) for automotive parts purchased which are passed on to customers. The department uses an online shop management software system called *AllData* which is used by automotive repair shops across the country. A separate software billing system called *AutoShopWiz* was used to invoice customers.

What OIA found

There were no controls in place to reconcile cash receipts from customers to bank deposit records or to the *AutoShopWiz* software billing system. In addition, cash received from customers was held personally by a shop employee until the end of the week when it was then turned in to the main office. The main office has a large and secure walk in safe which was not utilized by the employee.

We also found no system in place to ensure parts purchased for customers were billed and paid by customers before payment was made to the auto parts vendor by Putnam. We sent audit confirmation requests to the two primary automotive parts vendors used by Putnam and discovered a substantial number of payments were credited to Putnam's account that did not come from the Student Association checkbook or from the City. We contacted one of the vendors and discovered that account activity statements were being sent electronically to the personal e-mail of one of the employees. We were also able to confirm with the vendor that a substantial number of payments credited to Putnam's account were made in cash.

We immediately notified the Principal and CFO and suggested that they change the billing addresses for all of the accounts to Putnam's main office or close the accounts. We also suggested that the online user name and password be controlled by the Principal.

We also discovered two accounts for Putnam used at this same vendor. According to staff, the first account was set up to charge sales tax for automotive parts sold to Putnam customers. The



second account was set up as nontaxable for auto parts consumed directly by Putnam for school department vehicles. We also noted the billing address used for one of the accounts was the address of the local auto parts store and not Putnam’s address. Account transactions reviewed did not bear out the explanations provided by staff. We found that each account contained both taxable and nontaxable transactions. More problematic however is that sales taxes subsequently collected from customers were not remitted to the Massachusetts Department of Revenue.

We requested the computerized records from the Automotive Technology shop for review. During the February school vacation week, an IT staff person was sent to the Automotive Technology shop but was told the computer was in use and asked if they could come back the next day. When arriving the next day the IT tech was informed that the computer was removed from the school by an Automotive Technology employee to install new invoice software.

The Principal contacted the employee and obtained the computer for the OIA. The Principal later learned that a senior Putnam administrator called the employee at home informing the employee of our request for the computerized records. When we searched the computer for the *AutoShopWiz* billing software we discovered that the program was not on the computer. We found a 30 day trial version of the *AutoShopWiz* software but there were no Putnam records associated with it. We searched the recycle bin for discarded files however the entire recycle bin had been emptied. We then performed a detailed search of all remaining files on the computer and found an Access database file containing records generated by the *AutoShopWiz* software for the period 7/9/09 to 2/28/11. The OIA purchased the *AutoShopWiz* software to enable analysis of the records.

In the table below we summarized and compared the *AutoShopWiz* billing invoices to deposits recorded on Putnam’s manual ledger sheets:

AutoShopWiz		Deposits per Manual Ledger Sheets	Difference
# of Vehicles Serviced	Invoice Amount		
Fiscal Year 2010:			
1070	\$ 85,868	\$ 49,791	\$ 36,077
Fiscal Year 2011 - through Feb 28, 2011:			
234	\$ 14,907	\$ 7,191	\$ 7,716



There is a substantial difference between the *AutoShopWiz* invoices and recorded deposits. To provide some historical context, deposits recorded to the manual ledger sheets were \$43,145 in FY08, \$48,997 in FY09 and \$49,791 in FY10. As noted above, we were unable to recover any *AutoShopWiz* invoice data before 7/9/09 to compare to recorded deposits.

In order to provide an overview of the Automotive Technology operations we counted the number of vehicles serviced and recorded in the *AutoShopWiz* billing system. Based on a 180 day school year, the average number of vehicles serviced per school day was 5.94 ($1,070 \div 180$) in FY10 and 2.14 ($234 \div 108$) in FY11. There were five full-time Automotive Technology teachers at Putnam. Proper administrative oversight was not in place to correct inconsistencies or to properly monitor performance of these teachers. We also noted various inconsistencies in the detailed contents of the individual invoices. Sales tax was intermittently charged and collected, the pricing for standard services such as oil changes was not uniformly applied, and charges to customers for the required 20% markup were also inconsistent.

Why is this important

Reconciliation of cash receipts to bank statements and accounting records is a standard internal control practice to ensure all transactions have been recorded and cash handling procedures have been followed. A lack of such internal controls creates an environment for theft and abuse. In addition, use of a personal e-mail account to receive detailed transaction history created the opportunity to hide cash transactions from administrative oversight. Cash payments to auto part vendors suggests that private repairs may have been performed on school property by school personnel or that Putnam's governmental discount and tax exempt status may have been converted for private use.

Administrative oversight is important to ensure the success of students. Control over departmental records and computer systems is an integral component of such oversight. Since we were unable to retrieve historical data from *AutoShopWiz* we were unable to reconcile *AutoShopWiz* invoices to recorded deposits. Additionally, the number of vehicles services per day suggests that either the department is overstaffed or vehicles serviced are not recorded. If vehicles serviced are not recorded and amounts are not collected from customers, then essentially school resources are being used to subsidize the repair of private vehicles.



1. Finding: Transactions were not properly recorded or reconciled

Work performed for customers was not consistently accounted for in the *AutoShopWiz* software. Proper reconciliations were not performed in comparing customer billing information to payments received and subsequent bank deposits made. There was a lack of oversight in properly analyzing shop activity and in correcting inconsistencies. Proper internal controls surrounding the collection and turnover of daily customer payments were not enforced.

Recommendation

We recommend that Putnam review the prices charged for vehicle repairs and implement a system to ensure the pricing structure is consistently applied to all customers using the *AllData* software program. *AllData* is an industry standard commonly used to manage automotive repair shops. All customer payments should be made in the main office using MUNIS cash registers providing real-time recording. As indicated above, the main office has a secure walk-in safe. MUNIS and *AllData* transactions should be reconciled monthly. We provided a flowchart with detailed suggestions to Putnam on September 22, 2010, with sample forms for vehicle intake, work orders and invoices along with suggestions for signage at the Automotive Technology and the main office.

2. Finding: Controls over cash disbursements and receipts were inadequate

Customer payments were not only paid to Putnam but were also paid to various auto part vendors. Additionally vendor invoices and statements were not properly being mailed to Putnam administrators. This prohibited proper review, monitoring, and reconciliation of shop activity to ensure school resources were not misappropriated.

Recommendation

We recommend that all internally generated customer invoices be matched to auto part vendors' invoices before payment is made to the vendor. This will ensure that school resources are not inadvertently used to pay for private customer repair parts.



3. Finding: Data was found missing from computer obtained from Automotive Technology shop

The software utilized for the Automotive Technology program was not on the shop computer when it was finally obtained by the SPS IT department for OIA review. The related electronic customer records were also immediately unavailable. There was a database file remaining on the computer containing customer invoices from 7/9/09 to 2/28/11 that the OIA was able to extract. The data was substantially different in comparison to revenue data obtained from both the vocational office and main office at Putnam. There was a lack of oversight of the financial activity of Automotive Technology processes.

Recommendation

We recommend that Automotive Technology operations and financial results be reviewed with the Chapter 74 director and the principal on a monthly basis to provide oversight and administrative guidance. We also encourage the SPS/Putnam to explore any violations of existing school policies including those mentioned related to computer use or ethical standards that may have been violated in the deletion of electronic data from school equipment.

4. Finding: Sales Tax inconsistencies found

Auto part vendor activity indicates both taxable and non-taxable transactions. There were additional inconsistencies with the assessment and collection of sales taxes from customers at Putnam.

Recommendation

We recommend that sales taxes collected be remitted to the state. Sales and Use tax regulations must be properly researched and enforced by the SPS as it relates to inventory purchases and subsequent sales of products.



School Department Response

The School Department agrees with these findings. Efficient cash controls have been established to ensure quality and thorough reconciliations along with weekly armored car pickups scheduled throughout the year. Furthermore, MUNIS cash registers are installed and in the process of being programmed. All future shop invoices must have receipts attached and an internal policy modification pertaining to the use of school resources was made and communicated to staff. A listing of vendors is being assembled to compare pricing and will be monitored on a continuing basis.



C. CARPENTRY

The Carpentry program at Putnam provides students with instruction in carpentry related areas such as home construction, roofing, and installation of drywall and windows. Instruction for the assembly and installation of other projects such as decks, porches, stairs, flooring, and cabinets is also included. Students are additionally involved with various outside commercial projects. The program advertises that it prepares students for future positions such as laborers, carpenters, project managers, building inspectors, and civil engineers.

During the course of our review we became aware of multiple allegations regarding various operations of the Carpentry program. We therefore performed a site visit to the Carpentry shop at Putnam, interviewed various staff members, reviewed existing processes, and examined transactions from files and computers obtained from both the Carpentry shop and the Putnam vocational office. All findings were communicated to Putnam and SPS administrators during the course of our review. Any findings the OIA discovered that may have had a potential impact related to Human Resource issues were immediately communicated to the City Solicitor for review and referral.

What OIA Found

Pricing for carpentry products sold and jobs performed at Putnam is unclear. There were no price lists or departmental signage with current pricing practices. Markups on jobs performed were inconsistently applied and employees were uncertain as to what percentage is required as a markup on the sale of products produced or services performed.

Disbursements were made from the Student Association checkbook and were recorded on manually prepared ledger sheets. Manual ledger sheets were maintained for each Putnam student activity and each vocational activity. Due to a lack of proper controls and oversight we noted that names of Carpentry teachers and senior administrative staff members were also designated as “activities”. It was within the activities related to carpentry, construction, and repair that we discovered numerous transactions requiring OIA follow up. We found instances where gift cards were purchased from well-known retailers such as Barnes and Noble, Aeropostale, and Old



Navy. We found no records detailing the educational purpose for the gift cards or how they were distributed. There were multiple instances of employees paying cash for supplies or equipment with a reimbursement paid later from the Student Association checkbook. One reimbursement payment to an employee reflected over \$2,900 in cash paid by the employee during a one month period for supplies. Included in that request were payments totaling over \$100 in sales tax to vendors that was subsequently reimbursed to the employee from school funds. Also included in that same reimbursement request were receipts showing large individual cash transactions at various vendors in the amounts of \$432.74, \$663.78, and \$1,031.63. We found many requests for disbursements that did not include any documentation or did not properly substantiate the requests.

Multiple Putnam employees held Home Depot credit cards and the balances were paid through the City's accounting system. However we discovered additional purchases were made by Carpentry employees with Home Depot *gift* cards. We found over \$1,200 in supply purchases made with Home Depot gift cards. It is not known whether the amounts used to initially fund the gift cards were in cash or as a result of store credit refunds. We also found instances where personal Home Depot *credit* cards were used instead of credit cards set up using the City's account. We discovered one instance where \$664 was received as a cash refund for returned items to Home Depot using a personal Home Depot credit card account.

Several transactions observed in the Student Association checkbook contained the description: "New Orleans". We found that these expenditures were related to a community service trip where students were to assist in the repair and rebuilding efforts in New Orleans, Louisiana. The trip was authorized by the School Committee. Over \$22,000 was paid out of the City's General Fund for round trip airline tickets and hotel costs for an eleven night stay for students and staff. Additionally an employee was issued \$5,170 in advanced funds from the Student Association checkbook and was assigned the responsibility of administering and reporting the use of the funds. This cash was to be used for meals and other incidental expenses while the group was in New Orleans. The receipts for meals and other expenses provided after the completion of the trip totaled \$4,605 resulting in \$565 of expenses that were not accounted for. One of the



employees on the trip, in lieu of actual receipts, presented a blank receipt book purchased at a local office supply store with instructions to “make up receipts” to cover up the fact that the employee did not provide any actual receipts as support for the cash used from the Student Association checkbook. \$599 in cash expenses were later submitted to the City of Springfield for reimbursement from the City’s General Fund by three employees that were on the trip.

During the course of performing inventory auditing procedures, we selected a sample of various lumber purchases made by Putnam between 9/25/2007 through 1/5/2011 for the Carpentry shop. Our sample totaled over \$45,000. Because Putnam does not maintain an inventory system for materials purchased we were unable to trace the selected sample to inventory supplies. Therefore we were unable to determine whether the purchases were used by Putnam students. Our sample included numerous types of expensive wood including Pine, Poplar, White Oak, Red Oak, White Maple, Cypress, Birch, Primed Bead Board, and Honduran Mahogany. Carpentry shop employees explained that these materials were used for normal student shop curriculum. However, we found a substantial number of outside private jobs were performed by students. Without an inventory system in place Putnam is unable to ensure that material purchased with school were used by students or on outside private jobs.

The explanation for the missing lumber given by a Carpentry shop employee was that students made items using that lumber but could not take them on the school bus. The items were then allegedly thrown by students out on the lawn where the wood was consequently ruined. A “best guess” was then given during an additional interview with the same employee that the more expensive lumber purchases could have been used in making cutting boards and chess boards. Documentation was not provided indicating how the lumber purchases were used but we can speculate that there must be quite a few cutting boards and chess boards if the full \$45,000 were used for making them; however, the OIA did not observe any such items in the Carpentry shop during our visit. We determined that inventory is not tracked therefore making it impossible to discern items used for student projects per the curriculum from items used in performing carpentry jobs for private citizens or for personal benefit. A consistent system for budgeting, monitoring, or recording the use of supply or equipment purchases is not present at Putnam. Nor



is there proper administrative oversight to determine whether outside jobs performed are properly charged to recover school resources advanced.

Per the SPS *Computer, Network, Internet and Web Page Acceptable Use Policy*, the SPS provides computer and IT resources to staff for educational and administrative purposes. It is not the intent for these resources to be used for any non-SPS related activities. During the course of our review we discovered several instances where an employee utilized a school computer for personal benefit. A review of computer files and e-mails revealed documents referencing activity for a private carpentry business owned and operated by the employee. The documents revealed that these activities related to the personal business were performed during school hours using an SPS issued computer.

Putnam staff alerted us to an instance where a Carpentry employee left a classroom for an extended period of time to deliver kitchen cabinets out of state to another employee's residence. This information prompted us to perform additional interviews related to projects that potentially were not school related. We discovered an instance where school Carpentry equipment and Carpentry classroom space were used in completing another private project (kitchen cabinets) for an employee. Payment for this project was paid to the employee that owned a private carpentry business and the project was completed during actual classroom time. Further interviews yielded a confession from another employee that Putnam Carpentry equipment was freely used for personal benefit. In that instance, cabinets were made by the employee while the employee was retired from the SPS. There were additional Putnam Carpentry staff members found operating sideline carpentry businesses. We found no direct evidence that these businesses were operated during school hours or that they used school resources to operate; however, the opportunity existed for them to do so.

We additionally discovered numerous examples of correspondence from an employee related to the purchase, repair, and rental of a property located in another state. We learned that other staff members were asked by this employee to participate in the repair of this out of state rental property. We discovered one instance where vacation days requested by the employee specifically to work on the out of state rental property directly coincided with sick days taken by other employees that were previously asked to perform work on the property. During the course



of our review, Putnam staff expressed concern regarding purchases from a tool vendor located in that same state. They indicated that there were past due invoices and open purchase orders being utilized by unauthorized Putnam personnel with that vendor. We had further concerns when we discovered that the location of the vendor was only 17.34 miles from the location of the employee's rental property. Copies of invoices obtained from the vendor indicated multiple purchase dates including both weekday and weekend purchases. Signatures on many of the invoices were those of Putnam employees. Many of the invoices do not contain purchase order references nor any identified contract information or sources of funding. It is not a typical procurement practice of the City to utilize an out of state vendor for the items that can readily be acquired locally from pre-approved vendors. Additionally in accordance with state procurement laws, best practice is to periodically solicit vendor quotes or price lists to ensure that the City is obtaining favorable prices. We did not find evidence that the employee adhered to these requirements.

Why is this important

Student Activities and Vocational Programs must be recorded separately and properly monitored by the City Treasurer, School Committee and Putnam administration. Transactions classified under staff names or under other discretionary names are not student or vocational activities and those accounts should not have been established in accordance with Massachusetts General Laws.

All transactions should be performed within the City's accounting system to properly monitor activity and also to ensure purchases are properly procured. Pricing for services offered should be standardized, uniformly applied, and appropriately communicated to the public. Transactions involving cash or gift cards circumvent both the Putnam accounting system and the City's accounting system and cause an inherent lack of management oversight to prevent inappropriate expenditures and misappropriation of school resources.

Travel expenditures, especially travel advances, should be appropriately controlled to prevent the opportunity for individuals to receive both cash and also COS reimbursements for the same expenses and to ensure the expenses are reasonable and properly documented.



Performing outside jobs and failure to account for the materials utilized for those jobs creates the opportunity for a subsidy to private citizens using school resources. Faculty's use of classroom space and equipment for personal use creates exposure for risk of injury to staff, students, and others. It also creates unnecessary damage and wear on equipment that should solely be available for students.

5. Finding: Lack of controls over Student Association checkbook resulted in inappropriate transactions

Putnam staff members purchased numerous items with cash and personal credit cards and were later reimbursed, seemingly without restriction, for all expenditures. This resulted in potentially inappropriate transactions such as the purchase of retail gift cards, payments of sales tax to vendors, and purchases with little or no substantiation. Further purchases and returns made with the retail gift cards were unmonitored by management. Purchases were made from preferred vendors rather than vendors approved for use by the City of Springfield's Office of Procurement. An employee was given the responsibility for custody of thousands of dollars in cash for a school trip with no guidance or requirements for accounting for the funds, evidence of how amount taken was originally estimated or whether the amount taken was projected to be sufficient to cover contingencies or unforeseen expenses. School and City funds were used for staff meals on the trip creating the opportunity for reimbursement from both accounts for same expenses. The cash shortage from the trip was not resolved resulting in a loss of school resources that was never accounted for.

Recommendation

To assure accountability and proper management in the future it is imperative that all transactions are properly recorded in the City's accounting system. Vendors should be approved for use by the City's Office of Procurement and subsequent purchases must adhere to 30B requirements. Additionally, in accordance with state procurement laws, best practice is to periodically solicit vendor quotes or price lists to ensure that the City is obtaining favorable prices.



We encourage Putnam and the SPS to work collaboratively with the City's Office of Procurement to properly purchase supplies, tools, and equipment for the Carpentry program from the ample approved vendors available. The volume of lumber purchased should be based on need per the department's approved curriculum.

We further recommend that Putnam should create a policy that prohibits employee personal supply and inventory purchases and subsequent reimbursements. All purchases and payments should be performed directly with vendors by using the City's procurement and accounts payable systems. Exceptions should be strictly limited by policy (example: travel expenses only). Any credit card rewards received by anyone that personally paid for Putnam related supplies or services should be immediately returned to the City of Springfield.

Documents substantiating expenditures, including travel expenditures, should be strictly monitored; the utilization of a scheme to submit fraudulent receipts is a violation of Massachusetts General Laws and is punishable with fines up to \$10,000. Responsibility for managing school trips should be given with specific policies and procedures in place for any travel advances, substantiation requirements for expenses incurred, and personal responsibility for shortages.

We also strongly recommend a proper segregation of duties as is related to ordering inventory, receiving shipments, and scheduling payments. Additional segregation of duties is essential in receiving and recording sales proceeds. School administrators should require a system of good internal controls so that no one employee has complete control over an entire transaction.

We recommend that all revenue payments be made at Putnam's main office utilizing a cash register that is compatible with the City's accounting system, MUNIS. A receipt should be provided for every transaction. We further recommend that the collection of cash should not be performed by individual teachers whenever practical. If required, however, proper accounting controls such as segregation of duties and appropriate documentation (ex: pre-numbered receipts given to all patrons, posted price lists, preparation of turnover reports for management) should be in place to ensure that all school collections are properly deposited into the City's bank account



and that any errors or omissions are identified and reported promptly. Controls over the custody of cash should also be established and monitored (procedures for collection of cash, transfer of cash, use of locking cash boxes or cash registers, etc.)

Sales and Use tax regulations must be properly researched and enforced by the SPS as it relates to inventory purchases and subsequent sales of products.

School Department Response

The School Department agrees with this finding. The checkbook was closed and all Student Activity funds have been deposited with the City Treasurer. In addition, the Student Activity accounts created in MUNIS are segregated within a unique fund code. This structure allows for a proper accounting of funds, and compliance with both 30B requirements and processes set forth by the Office of Procurement. The additions of an Accounting Manager and Financial Analyst at Putnam have allowed for a clear reassignment, segregation, and designation of duties.

6. Finding: Lack of inventory control over supplies and equipment

The sales prices and markups of items produced were inconsistently applied and are not properly communicated to the public. Items returned for cash or store credit were not properly monitored. Putnam staff members were unable to trace lumber purchases to items used for curriculum or for outside projects. An inventory system is not in place to track items used in performing carpentry jobs creating the opportunity for use of the materials for personal benefit.

Recommendation

All purchases should be properly budgeted, estimated, and tied to curriculum. If needed for an outside project, costs for the project must be properly authorized, tracked, and monitored. A good inventory control system and outlined procedures for reporting departmental financial activity should be put into place to hold departments accountable for purchases budgeted, actual materials used, and actual sales realized. Policies and procedures regarding the return of supplies or equipment purchased must be developed to ensure transactions and inventories are properly



monitored. Prices and related markups should be developed, consistently applied, and properly communicated to the public (ex: shop signage, website development, price lists, etc.)

Proper oversight of the department by the Chapter 74 Director, the Principal, and other designated personnel must be maintained and enforced at all times. Putnam administration should approve all vocational projects accepted and any prices set for the general public. The School Committee should ensure Putnam adheres to School Committee policies including any adopted applicable to the Chapter 74 framework.

School Department Response

The School Department agrees with this finding. Department heads will periodically submit a curriculum calendar to be reviewed by administration. Subsequent inventories will be performed to ensure that supplies and equipment adequately suit lesson plans and projects. Along with two new financial positions and a Chapter 74 Director, the Principal will continue to be heavily involved in the management, supervision, guidance of all personnel, funds, and processes.

7. Finding: Evidence of private carpentry business communications and other personal communications performed during school time using city resources

An employee conducted transactions related to a privately owned carpentry business and for a personally owned out of state rental property using a City issued computer during school hours. Additional employees were asked to perform repairs to the rental property. Classroom space and equipment were utilized by staff for personal benefit.

Recommendation

Putnam should develop and implement a policy prohibiting the personal use of school premises, equipment, and supplies. School resources should only be used by authorized employees solely for the benefit of students and never for personal gain. Any other usage creates exposure to the City for potential incidents of personal injury to staff, students, or others. It also creates the opportunity for adding unnecessary damage and wear on equipment meant for student



instruction. Policies should also be considered to address “sideline” or additional businesses owned by employees to ensure school resources are not utilized for such activities.

We also encourage the SPS/Putnam to explore any violations of existing school policies including those mentioned related to computer use or ethical standards that may have been violated in the use of school equipment for personal benefit.

School Department Response

The School Department agrees with this finding. A policy was established and communicated to staff that no school resources may be used for personal gain, business, or projects. Employees will be required to participate in an online training program mandated by the Mass State Ethics Commission. Also planned is a Chapter 74 handbook to serve as a reference for the policies and procedures of Vocational Education.



D. TYLER STREET PROJECT

When conducting auditing procedures related to the Putnam Carpentry shop, we found numerous vendor payments related to an ongoing project at 162 Tyler Street. Payments were made from the Putnam Student Association checkbook and the from the City. We performed additional procedures to understand the nature of the project, the progress to date, and any estimated costs remaining to complete the project. We appreciate the cooperation and assistance received from the teachers directly involved with the project.

162 Tyler Street is foreclosed tax title property currently owned by the City of Springfield. In March 2009, the City entered into an Inter-Departmental Agreement with the Springfield Public Schools to use the Tyler Street property for vocational students to renovate and rehabilitate. The students would accomplish this, "...by performing various carpentry, electrical, plumbing, heating and air conditioning and/or hot air, painting and decorating skills under the supervision of instructors and/or staff members of Putnam".

The agreement stipulates that Putnam shall be responsible for obtaining necessary permits, tools, building materials, utilities, and maintenance as needed for the project. Any associated costs for those items or services are the responsibility of Putnam. Putnam is also required to obtain and pay for a Blanket Accident Insurance Policy to cover vocational students working on the project. When the agreement commenced the policy was with the National Union Fire Insurance Company of Pittsburgh, PA.

Upon completion of the project the agreement indicates that the City will offer the property for sale at a tax title auction. The successful bidder must pay a "buyer's premium" which will equal the actual costs of materials and labor incurred by Putnam for the project. This premium is to be added to the sales price to reimburse Putnam for the cost of the renovations.

Further examination of Tyler Street related transactions yielded the findings listed below. All findings were communicated to Putnam and SPS administrators during the course of our review.



What OIA found

Putnam did not maintain accounting records to track Tyler Street project costs. Expenditures were primarily paid from the Putnam Student Association checkbook circumventing City procurement practices. Payments made through the City followed the City's procurement practices but were charged to the school's general fund instead of a separate account. A separate account would have enabled Putnam to easily accumulate and track expenditures to control project costs and ensure complete reimbursement to Putnam.

We found no evidence of how the estimated costs of the project were calculated. Information obtained from documents filed with the City's Code Enforcement Building Division yielded only whole number estimates for the estimated costs for the project. An itemized listing of windows and doors was filed with the Building Division but no prices were included with the listing. The project was originally estimated to be completed by June 29, 2010 per the original application for a "One or Two Family Dwelling Permit" filed June 15, 2009. However on June 3, 2010 an additional application was filed describing changes in the scope of the project including a 300 square feet addition and moving the basement entrance. We visited the site in December 2010 along with a Building Inspector from the City's Code Enforcement Building Division and found that the property, although structurally sound per the inspector, was definitely not completed or able to be occupied at that time. The house appeared to be "gutted" with only exterior framing visible. No electrical purchases were present at the job site; shop lights were hanging sporadically throughout the first floor using extension cords for lighting for the project. No plumbing or fixtures had been installed and a large portion of the roof was missing. Employees indicated that most of the project materials were stored in off-site trailers at Forest Park. OIA inventoried the trailer and found substantially all of the siding and roofing materials were purchased approximately a year in advance and stored. The explanation provided was that they were instructed to purchase the materials before year end to prevent appropriation reversion.

Prior to our December 6, 2010 site visit to the Tyler Street property we performed various searches for requisitions, purchase orders, and invoices related to the project to gain an understanding of the project. Many of the invoices were used during our physical observation of the property and storage trailers. We found over \$33,000 of purchase orders and \$23,000 in



expenditures from both the General Fund and the Putnam Student Association checkbook attributable to the Tyler Street project. The listing of expenditures was developed by using references on invoices, items physically observed, or items corroborated verbally by vendors, the building inspector, or the teacher assigned to the project. However, because Putman did not maintain adequate records and failed to monitor or reconcile amounts paid, documentation is insufficient to determine what the actual total cost of the project was to date. The documents filed by Putnam with the Code Enforcement Building Division originally estimated a total cost of \$45,000 for the project which was revised one year later to \$50,000. We question whether the project can be completed within this project estimate. At the time of our site visit there was no electrical work performed, no kitchen or bathroom(s), and the roof was not complete. Additionally, labor costs for the project have not been included in the project estimate and the project had no projected date of completion.

In researching the current status of the insurance policy referenced in the agreement, we were advised by National Union Fire Insurance Company of Pittsburgh, PA that the policy was handled by the small business underwriting center at Chartis Insurance. Chartis directed us to the broker for the policy which is American Management Advisors who indicated that policy had expired August 15, 2010. We immediately advised the SPS and they obtained two new policies, with coverage commencing October 1, 2010. The "Base" policy currently expires August 15, 2011 and the "Catastrophic" policy is set to expire September 1, 2011.

Why is this important

Proper oversight and accounting for the project are essential in complying with terms outlined in the agreement with the City and to determine the "buyer's premium" that will be assessed when the property is ultimately sold upon completion of the project.

An adequately prepared budget with a system for tracking, monitoring, and accounting with properly documented expenditures is essential to ensure that City and/or school resources are used appropriately.



It is a fundamental practice for contractors and their supervisors to review the plans and specifications for a project and subsequently produce a listing of items and material quantities needed for the project. Then, based on this listing, various costs for every aspect of the project are typically calculated. This is essential to ensure that appropriate resources are available and for proper planning and budgeting of the project.

There is a risk involved with purchasing items in advance if additional materials are required it may be difficult to match styles or colors with vendors; conversely if any materials need to be returned vendors may not grant a refund for older materials. Storage of materials for any length of time in outdoor trailers may expose the items to adverse weather conditions such as extreme heat or cold.

There was deficient project oversight to ensure appropriate insurance coverage. A lapse in coverage not only violates the agreement but exposes both the City and SPS to liability related to the safety of Putnam vocational students.

8. Finding: Major deficiencies in accounting for the project

Putnam administrative staff members were unable to provide the OIA with an accounting of what had been spent on the project to date. No formal method exists in the City's accounting system, MUNIS, for tracking expenditures for the project.

Recommendation

We recommend that the SPS work collaboratively with the City's Comptroller to create MUNIS accounts that can be utilized for capturing and tracking project expenses as they relate to large outside projects such as the 162 Tyler Street project. The account(s) used should have the capability of being used for multiple years. The preferred method developed should be communicated to relevant staff at Putnam to ensure consistency and adherence to proper accounting for the project.



School Department Response

The School Department agrees with this finding. A unique MUNIS project code was created to account for Tyler Street by expenditure type and revenue. The current up-to-date ledger information shows orders, expenditures, encumbrances, and balances.

9. Finding: Oversight of scope of project was not sufficient

Oversight of the project was completely lacking and no evidence was found that the project was properly budgeted or that the budgeted to actual expenditures were being monitored in any way. The likelihood of recovering costs is uncertain because the project did not have proper oversight.

Recommendation

We recommend that Putnam/SPS personnel should perform an immediate physical inventory of the items stored in trailers and at the job site. If possible, these inventory items should be traced to supporting documentation for the purchase of those materials. As also mentioned in our recommendations regarding inventory, a policy should be developed that outlines departments' responsibilities for safeguarding and monitoring assets including the requirement to immediately report missing items, missing keys, unusable items, or items that have been transferred to another onsite or offsite location.

We recommend that Putnam administrative staff create and maintain a detailed itemized listing of the project costs to date and any remaining project requirements including work in process, additional materials needed to achieve completion, cost of those materials, and a detailed project timeline that corresponds to the department's curriculum.

Proper oversight of the department by the Chapter 74 Director, the Principal, and other designated personnel must be maintained and enforced at all times.



School Department Response

The School Department agrees with this finding. An administrator at Putnam has been assigned as the project manager of the Tyler Street Project. The individual has been at the project site approximately four days a week and is continuously overseeing issues and monitoring bills. Materials deemed salvageable that were stored off-site will be reclaimed and added to the on-site inventory.

10. Finding: Required insurance coverage lapsed

As a result of improper management of the project, the insurance policy obtained lapsed due to non-payment of premiums therefore violating the contractual requirement for necessary coverage.

Recommendation

The current contractual agreement expired June 30, 2011; we recommend that Putnam/SPS work in association with the City Treasurer to renew the current contract if the project is not yet completed. Current insurance policies are set to expire August 15, 2011 and September 1, 2011. SPS and Putnam must ensure that continuous required coverage is maintained during the life of the project if extended.

School Department Response

The School Department agrees with this finding. Currently, an administrator at Putnam is actively involved in the process of extending insurance coverage for the Tyler Street Project.



E. INVENTORY

During the course of our review we performed several auditing procedures that focused solely on evaluating whether current internal controls over assets were sufficient. We also performed various testing procedures to ensure existence of City assets and whether those assets were properly safeguarded.

We interviewed numerous Putnam employees including administrative staff, teachers, and maintenance staff. We then toured various storage rooms and classrooms to perform a physical inventory of a judgmentally selected sample of assets.

Items chosen for observation were obtained from a listing of assets that were purchased per the City’s accounting system, MUNIS. The listing was further evaluated for assets that had identifying information readily available such as model numbers, serial numbers, or other identifiable characteristics. The assets we selected to observe spanned multiple vocational shops, multiple fiscal years, and were purchased from various funding sources. Further examination of the Putnam’s controls over inventory yielded the findings listed below. All findings were communicated to Putnam and SPS administrators during the course of our review.

What OIA found

We selected a sample of 171 assets purchased between 8/8/07 and 1/15/11 and conducted a surprise inventory at Putnam to test the existence of those assets. We noted significant discrepancies between assets purchased and assets observed. We were unable to locate 80 of the 171 assets selected to observe which have a cost of \$135,166. The results of our observations are listed in the tables below:

Shop/Area Selected	Number of Assets Selected to Observe	Number of Assets Accounted For	Number of Assets Unable to Locate	Percent of Assets Unable to Locate
Admin/Repair	13	11	2	15%
Carpentry	54	34	20	37%
HVAC	1	1	0	0%
IT	100	42	58	58%
Sheet Metal	3	3	0	0%
Total	171	91	80	47%



Shop/Area Selected	Total Cost of Assets Selected to Observe	Total Cost of Assets Accounted For	Total Cost of Assets Unable to Locate	Total Cost of Assets Unable to Locate purchased with funds from the Perkins Grant	Total Cost of Assets Unable to Locate purchased with funds from the General Fund
Admin/Repair	\$ 19,050	\$ 17,398	\$ 1,652	\$ -	\$ 1,652
Carpentry	102,430	44,687	57,743	11,072	46,671
HVAC	414	414	-	-	-
IT	138,053	62,189	75,864	75,864	-
Sheet Metal	82,990	82,990	-	-	-
Total	\$ 342,937	\$ 207,678	\$ 135,259	\$ 86,936	\$ 48,323

During the course of our review we noted several internal control weaknesses that contributed to the inconsistencies found during our physical inventory. Employees were unable to provide OIA with a current listing of assets at Putnam. The OIA was aware going into the review that there was a prior history of alleged thefts at Putnam. It was previously reported in the media that Putnam suffered a theft of an overhead projector valued at \$1,000, a computer cart worth \$10,000 and nine laptop computers valued at \$1,500 each in 2010.¹ Although not corroborated by the observation of police reports, we were also provided with information indicating Putnam had knowledge of the theft of forty-nine computers. This information was obtained from prior, undated IT inventory spreadsheets which were provided to the OIA during staff interviews. Unfortunately these spreadsheets were the only discovered attempt at maintaining inventory records at Putnam High School.

Additionally, knowledge of the location of assets is extremely fractured at Putnam. “Best guesses” by the staff as to the location of assets yielded more speculation than results for our visit. We gained access by maintenance staff to storage areas and other rooms that had not previously been entered into by the administrative staff that accompanied us during our visit. We observed rooms that contained stockpiled equipment, both very old and brand new still remaining in boxes. During our onsite examination of assets we discovered that most computers have locks and/or locking cabinets. However, the keys for some of the computer carts were

¹ "Springfield police investigate theft of \$25,000 in computer gear from Putnam High School," by Patrick Johnson, *The Republican*, May 26, 2010



unable to be located by Putnam staff and the computers consequently remain unusable by students. This also prohibited us from properly comparing some computers to our listing of selected assets to observe.

We discovered that deliveries of equipment ordered are not centralized but delivered to numerous locations within the building to various employees. We found one instance where a computer part purchased and delivered in a prior fiscal year remained in an unopened box in one of the rooms we visited to perform our inventory.

Although some programs were diligent about tracking assets that were removed from the premises, others were lax in monitoring assets remaining in the shop vs. assets taken to be used for outside jobs or activities. We discovered one instance where a purchased camcorder was unaccounted for but alleged to have been used on a school trip to New Orleans. In another instance a digital camera was found to still be in the possession of an employee that resigned.

We found instances where the supplies purchased for curriculum needs could not be located. In one instance we found no evidence that the purchases of expensive and rare hardwoods were appropriately budgeted or justified. The explanation for the missing lumber we received from an employee was that students made items using that lumber but could not take them on the school bus. The items were then allegedly thrown by students out on the lawn where the wood was consequently ruined. The same employee in a later interview speculated that the purchases could have been used in making cutting boards and chess boards but no detail was provided.

We were advised during interviews with various Putnam staff employees about additional security concerns as well. Maintenance staff indicated that the school currently has one hundred and seventy doors; sixty of those are the means of entry and exit for the building which is a large amount of doors to properly monitor. We discovered that faculty, students, and others freely enter and exit the building with no enforced requirement to sign in or sign out or obligation to provide appropriate identification. Putnam staff admitted they routinely close doors that are propped open by students and have to monitor the premises daily to ensure that students did not remain there after school hours.



All keys were previously in the possession of only one employee and that employee is currently out on unpaid administrative leave. We commend the current administration for their efforts in obtaining and identifying all keys, changing locks and combinations, and changing alarm codes. However no guidance was received nor was there a policy or protocol to follow as a result of employee turnover.

We obtained entry to a room that is used to house the main Server for the Putnam computer system. We observed that this room is also used to store supplies and equipment utilized by the custodial staff and therefore costly sensitive equipment is accessible by staff and outside vendors.

Additionally discovered was the lack of control over the personal use of valuable equipment by staff and retired staff. School shop equipment was routinely utilized for personal benefit. Moreover a newly purchased forklift is admittedly operated by staff members that do not have the proper license required by the Massachusetts Department of Public Safety (DPS).

New equipment remains unused in one classroom because the instructor is "...just waiting for IT techs to 'hook it up'." We discovered a classroom that had a cart containing sixteen laptop computers; however, only five of those computers were functional. Additionally the batteries for the five functional computers were alleged to last only 1.5 hours but the students attend the class for a four hour session. Replacement batteries had been requested by Putnam staff but had not yet been received.

A new computer was purchased for every classroom to run a new student data program, however, technicians were forced to quickly install the hardware without obtaining input from staff. Therefore practicalities were not considered such as placing the hardware in an optimum position so projectors could be properly utilized. Some teachers have subsequently submitted requests for the equipment to be moved to a different location in the classroom. Additionally the video cards supplied do not properly support projectors as they do not have dual output functionality; the image is only viewable on the screen or on the computer but not both which is a challenge during classroom instruction. Putnam staff members have requested "splitters" to be purchased and installed in every classroom for efficient use of the new equipment.



We were advised during staff interviews at Putnam that requests for services needed such as the instances outlined above were submitted to the SPS IT Help Desk but the requests unfortunately lingered for months due to staffing constraints and had not yet been accommodated.

Why is this important

Responsibility for monitoring assets and their locations is imperative to maintaining accurate inventory records and protecting the City's investments in equipment. Decentralized purchasing and receiving rather than controlled, centralized purchasing and receiving can create the opportunity for misappropriation of assets. Maintaining inadequate inventory records increases the risk of a theft going undetected.

Access to assets that can be removed off site should be limited and tracked, especially for highly desirable items such as power tools and electronic equipment, to reduce the risk of loss. Proper planning, budgeting, and approval of the purchase of supplies needed would help to ensure that there is no opportunity for unnecessary items to be purchased therefore making certain all school resources efficiently benefit the students.

Strict control at all times over who is in the building and at what time(s) is imperative to ensure accountability and security over assets. Critical errors could occur in safeguarding assets if a procedural checklist is not developed and routinely followed whenever an employee resigns, goes out on leave, or is terminated. Unauthorized use of equipment can result in unnecessary damage and wear to items meant for student instruction as well as the potential exposure for risk of injury to staff, students, or others.

11. Finding: Accountability for assets is inadequate

There is no current inventory listing of assets at Putnam. There are no employees that are responsible for tracking assets, identifying discrepancies, or taking action to resolve any problems.



We discovered that purchasing and receiving of assets, including computers and other peripherals, is not centralized. Putnam does not have a centralized system or method of tracking assets that are removed from the office for outside jobs or activities.

Purchases were noted in numerous employee interviews as made based on usage from the previous year rather than for the intended planned tasks in the current year.

Recommendation

We recommend that Putnam administrative staff work with the SPS to immediately conduct a complete physical inventory of all Putnam assets. A system should also be immediately developed and implemented to track incoming and outgoing assets. Asset records should contain fundamental information such as the location of the asset, who is in possession of the asset, description, identifiable information such as a model number and serial number, purchase date, cost, and status (in service, damaged, stolen, sold, etc.).

An employee independent of any employees that order and receive assets should conduct additional periodic physical inventories. These additional inventories should be timely reconciled against purchases, usage, and the prior period's inventory. The results including any missing information or discrepancies should be reported to the Principal and/or any other designee. This would be an essential tool for management to effectively track assets.

Policies and procedures should be developed that outline departments' responsibilities for monitoring assets including the requirement to immediately report missing items, missing keys, unusable items, or items that have been transferred to another onsite or offsite location. Anything marked stolen needs a police report attached or on file with no exceptions.

The approval, requisition, purchase, and delivery of supplies and assets should be centralized and performed through the City's accounting system, MUNIS. Payment should be made directly to approved vendors for budgeted purchases and not to individuals or for unapproved items. The City's system must be used for accounting and procurement and should not be circumvented just because it is deemed more expedient to do so. Purchases should be budgeted, approved, and preferably tied to the current curriculum. Policies should also be considered in requiring



teachers to maintain perpetual inventory records of supplies and assets used as planned in the curriculum.

Putnam should work with the IT department in exploring technology driven applications available inside and outside MUNIS for planning purchases such as estimating software or work order/job costing applications that could be linked to vendor pricing lists. Proper estimating of items needed and comparisons to actual usage will yield smaller ending inventories for supplies and will keep operating costs to a minimum while maximizing available resources.

School Department Response

The School Department agrees with this finding. Inventory procedures for all shops are being implemented and partial inventories are presently underway for two vocational shops. Base line inventories for all equipment, consumables, supplies, and donated materials are being planned with hopes of completion shortly after the start of school. We are also exploring software which tracks inventory as well as potentially purchasing inventory tags.

12. Finding: Physical security over assets needs improvement

Staff, students, and others currently have the opportunity to enter and exit the building with no enforced requirement to sign in or sign out or obligation to provide appropriate identification. Keys were controlled by one employee which became a challenge when the employee was out. Putnam currently does not maintain a policy or protocol to follow in instances involving employee turnover.

Costly IT equipment is not properly secured from access by unauthorized employees and/or vendors. Putnam staff and retired staff routinely used expensive school shop equipment for personal benefit.

Recommendation

It is crucial that a policy is immediately developed and enforced relating to staff, students, or others entering or leaving the building. A sign in, sign out system with the requirement to show identification should be included. This data would be an efficient management tool for



accountability in case of theft or other incident. It could also be utilized for monitoring and oversight for approving payroll time entries.

We recommend that an electronic door locking system should be researched and considered that works with cards or keychain fobs. Access codes could be easily changed if there is a breach or as a result of employee turnover. We also recommend that the purchase of more cameras with a plan for monitoring activity and storage of video data should be explored by management. Any immediate ability to procure the services of security guards should also be researched.

Access to assets in main storage rooms or server rooms should be limited to a few designated authorized personnel. When possible these rooms should be separate and maintained by a separate alarm. Only limited designated employees should have keys to storage areas and computer carts. A checklist should be developed and maintained as protocol for actions to follow in cases of employee turnover or for instances where keys are lost or stolen. Frequently accessed supplies such as custodial supplies should be relocated to a different area.

We recommend that the SPS develop a policy regarding the personal use of equipment. It should be used only for authorized employees for classroom instruction and not for personal gain or benefit. Authorized employees would also be defined as employees that are properly certified or licensed to use that equipment if required. We encourage the SPS to explore any ethical standards that may have been violated in the use of school equipment for personal benefit.

School Department Response

The School Department agrees with this finding and recognizes the challenges of improving security given the current environment. The new Putnam building will have electronic card access locks at main entry points into the building and all staff is instructed to notify the appropriate party when a potential intruder is discovered. Every student and employee is required to wear an ID badge so they can be identified at all times. In addition to Quebec officers patrolling the property during the day, a security guard has been hired to work the night shift.



13. Finding: IT technician support is undersupplied in maintaining functionality and helping to utilize investments in technology

SPS IT Help Desk submissions are currently pending for requests regarding installation of new equipment, obtaining additional computers, and acquiring classroom computer parts necessary for maximizing usage of recently received equipment. Current IT resources are extremely limited causing delays in fulfilling school requests.

Recommendation

Additional IT support and assistance is crucial in supporting and utilizing the City's existing investment in assets and for planning future purchases. For now, teacher input is essential for maximizing the best use of limited IT resources. It may also be beneficial to supplement existing IT resources with any current available free services offered by the City's computer vendor. The services the company offers such as recording of inventory purchases and remotely monitoring the location of current operating laptops could save valuable time in tracking assets. The vendor's automatic ability to disable use and functionality of a computer if removed from the premises should also be explored as a good deterrent against theft.

School Department Response

The School Department is currently reviewing its staffing model.



F. GRAPHIC AND PRINTING ARTS/COMMERCIAL ART

The Graphic and Printing Arts program is designed to provide students with instruction in various phases of the printing process. Several areas of instruction include computer design and layout, scoring, perforating, offset printing, and typesetting.

The Commercial Art program provides students with visual arts skills such as desktop publishing, web design, and digital photography. Students are also trained in screen printing and airbrushing skills.

For both the Graphic and Printing Arts and Commercial Art programs (hereafter referred to as Graphic Arts) supplies are purchased by Putnam, printed by students, and later sold. Sale proceeds were turned over to the bookkeeper for deposit to the Student Association checkbook. Sale proceeds and program expenses were recorded by the bookkeeper manually on handwritten ledger sheets.

We found manual ledger sheets for the following five programs: Silk Screen, Uniforms, Graphics, Graphics Buttons, and Graphics Snacks. Total deposits per the manual ledger sheets maintained by Putnam for fiscal years 2008, 2009, and 2010 were \$107,179.

In analyzing disbursements for the Graphic Arts program, we noted that most payments from the Student Association checkbook were to two key vendors and also to two individuals as reimbursement for Graphic Arts related expenditures incurred. These payments were typically made to purchase various shirts which were screen printed by Putnam students and later sold. Total disbursements to the key vendors and individuals for fiscal years 2008 through 2010 were \$94,235.

Further examination of Graphic Arts transactions yielded the findings listed below. All findings were communicated to Putnam and SPS administrators during the course of our review.

What OIA found

In reviewing program disbursements, we noted frequent reimbursement checks written to an employee and the bookkeeper for purchases made with personal credit cards. \$53,103 in



reimbursement payments for Graphic Arts expenditures were made from the Student Association checkbook between January 2006 and June 2010. This included \$33,158 in payments to the employee and \$19,945 to the bookkeeper.

In most instances the same employee that purchased the inventory also received the deliveries and also subsequently scheduled payment to be made to the vendors. We found no evidence that verification was noted by the department as to whether the goods were actually received as ordered. We found no evidence that staff obtained price quotes or made any requests for vendor bids when making purchases. One vendor has typically been used by the Graphics Arts department for the purchase of shirts for multiple fiscal years. Purchases to this vendor were in excess of \$5,000 were paid without a contract in each year. We learned that the SPS recently contacted this vendor to try to obtain a contract relevant to any future purchases from the company and the company declined to do so.

Graphic Arts income recorded in the City's accounting system, MUNIS, for FY 2011 is \$12,986. This is a significant decrease in deposits noted for the program in the three prior fiscal years. During employee interviews the notable decrease in activity in FY 2011 was alleged to be because inexpensive shirts could not be purchased from any other vendor than the one they were previously using and therefore the programs, "...pretty have much shut down." This comment gives us grave concern because using personally preferable vendors as opposed to using City approved vendors creates the opportunity for potential schemes involving personal gain.

Some of the payments made to one vendor were paid even though the invoices were invoiced from an entirely different vendor. Additionally, the invoices were not issued to Putnam directly; Putnam was only listed in the "ship to" field of the invoice. Vendor payments should have only been made if the invoices were issued to Putnam directly. The same lack of controls also allowed the opportunity for the same orders to be submitted twice for payment. Duplicate payments were made to a vendor from both the Putnam Student Association checkbook and also from the City of Springfield. The OIA was provided evidence that the overpayments were applied to additional invoices from the same vendor therefore a recovery of erroneous payments is not warranted.



It was also determined that the same employee typically responsible for sales of inventory is also responsible for collecting payments, recording payments, and remitting the cash receipts to the main office for deposit to the bank. No evidence was observed that a sufficient revenue collection system exists; accounting for Graphic Arts activity is manual and forms used are not pre-numbered.

We did not see any evidence that sales tax was assessed or collected from any of the sales made to private citizens. The assessment and collection of sales tax may be applicable to Graphics Arts transactions.

We uncovered two instances where an employee ordered goods via a personal e-mail address using both a vendor's account and also a Putnam Vocational High School account. We found other instances where valuable assets such as computers and digital cameras were purchased using a personal e-mail address and the delivery was made to the employee's personal residence. Any correspondence related to Putnam or Springfield Public Schools should be performed by employees through their City issued e-mail accounts. Per the *SPS Computer, Network, Internet and Web Page Acceptable Use Policy*, the SPS provides an e-mail account to all educational and clerical staff. The e-mail account provided should be used for any and all SPS business conducted via e-mail. Documentation related to one of these transactions also revealed that \$161.56 in sales tax was paid by the employee and subsequently reimbursed from the Student Association checkbook.

An employee's SPS issued e-mail address was used as a contact address regarding tax forms needed to file a personal tax return. SPS issued e-mail addresses should be used only for conducting SPS business. We also discovered one instance where an employee solicited confidential student data in an e-mail using an SPS issued e-mail address. The SPS computer use policy prohibits sending confidential student data through e-mail.

For fiscal years 2008 through fiscal years 2010, assuming a 20% markup, Putnam should have received an estimated amount of \$113,082 in receipts; however, only \$107,178 was deposited. It was determined that there should consequently be a large amount of ending inventory remaining



at Putnam. It was corroborated during employee interviews performed by OIA that over \$5,000 in unsold uniform shirts remain at Putnam.

The original cost of shirts purchased ranged in price from anywhere from \$1.27 to \$14.41. It is not possible from the records obtained to determine the total number of shirts purchased and sold by Putnam. It can be estimated that several thousand shirts were potentially purchased and sold during this three year time frame. We discovered correspondence that indicated in FY 2010 the department was, “seriously backed up with silk-screen jobs” and that Saturdays were being worked to try to finish the jobs. We also learned through employee interviews that teachers and students were paid during the summer for silk screening work. Salaries for teachers, including wages paid during the summer, for print-screen jobs were charged to City’s General Fund budget.

We discovered one instance where a Costco membership for a non-employee was paid from the Student Association checkbook for the personal benefit of a Putnam employee. The description on the request for withdrawal stated, “Membership for Costco for ability to buy snacks/(wholesale) for Print Shop and Skills and 12th grade [employee].” We are unclear as to whether the sale of snacks as a Graphics Arts program was approved by the principal or School Committee. We commend the department for properly turning over revenue from the sale of snacks to Putnam’s bookkeeper but we have concern as to the appropriateness of the snack activity as it relates to food provided by existing procured vendors.

Why is this important

Large employee reimbursements create the opportunity for employees to potentially benefit personally from the purchases in the form of “cash back” or other promotional rewards. Payments made through accounts other than those of the City of Springfield or payments by personal credit card create the opportunity for circumventing City’s accounting system and controls already in place within that system for properly procuring goods and services.

Using personally preferable vendors as opposed to using City approved vendors creates the opportunity for potential schemes involving personal gain. Additionally, negotiated discounts



through authorized vendors would not be utilized and sales tax could be assessed and erroneously paid.

Because payments were not properly monitored and processed through the City's accounting system there was ample opportunity for mistakes such as inaccurate or duplicate payments to occur without being discovered and the erroneous payment of sales taxes.

The same person ordering the inventory should not also be the same person receiving the goods and subsequently requesting payment for the related vendor invoice to prevent the opportunity for misappropriation of school resources. When duties are not properly segregated the opportunity for misappropriation and of resources and for concealing that misappropriation is created.

When an employee's personal e-mail address is used instead of the e-mail address issued by the SPS, activity does not have proper oversight or approval by management. Employees should never solicit confidential student information such as account numbers and social security numbers through e-mail correspondence because of the risk that the data may become compromised.

A functioning inventory system and budget to actual reported financial activity of the department could have properly alerted Putnam administrative staff as to the volume of shirts purchased, sold, and still remaining in inventory.

There is no evidence that the cost of paying teachers for weekend and summer work on Graphic Arts jobs was factored into sales prices which in effect may have subsidized private citizen sales.

14. Finding: Controls over cash disbursements and receipts were inadequate

Numerous payments were made to employees as reimbursement for paying vendors with personal credit cards. Purchases were not properly procured; vendors preferable to teachers were utilized instead of vendors with the best price or vendors selected in compliance with 30B requirements. Putnam staff members did not properly monitor cash disbursements which consequently resulted in inaccurate and duplicate payments and payments of sales tax to vendors from school resources.



Duties were not properly segregated in that the same individual had control of the ordering inventory and assets, receiving those orders, and subsequently requesting payment to vendors. Proper segregation of duties related to collecting and recording sales proceeds was also not sufficient. A manual, handwritten system is maintained for recording sales; pre-numbered receipts are not provided to patrons.

Recommendation

It is imperative that all transactions are properly recorded in the City's accounting system. Vendors utilized must be approved for use by the City's Office of Procurement and subsequent purchases must properly adhere to 30B requirements.

We encourage Putnam and the SPS to work collaboratively with the City's Office of Procurement to properly purchase shirts for the Graphic Arts program from the ample vendors available that could provide this service. The volume of shirts purchased should be based on need per the department's approved curriculum.

We further recommend that Putnam should create a policy that prohibits employee personal supply and inventory purchases and subsequent reimbursements. All purchases and payments should be performed directly with vendors by using the City's procurement and accounts payable systems. Reimbursements should be strictly limited by policy for expenses paid by employees (example: travel expenses only). Any credit card rewards received by anyone that personally paid for Putnam related supplies or services should be immediately returned to the City of Springfield.

We also strongly recommend a proper segregation of duties for ordering inventory, receiving shipments, and scheduling payments. Additional segregation of duties is essential in receiving and recording sales proceeds. School administration should require a system of good internal controls so that no one employee has complete control over an entire transaction.

We recommend that all revenue payments be made at Putnam's main office utilizing a cash register that is compatible with the City's accounting system, MUNIS. A receipt should be



provided for every transaction. We further recommend that the collection of cash should not be performed by individual teachers whenever practical. If required, however, proper accounting controls such as segregation of duties and appropriate documentation (ex: pre-numbered receipts given to all patrons, posted price lists, preparation of turnover reports for management) should be in place to ensure that all school collections are properly deposited into the City's bank account and that any errors or omissions are identified and reported promptly. Controls over the custody of cash should also be established and monitored (procedures for collection of cash, transfer of cash, use of locking cash boxes or cash registers, etc.)

Sales and Use tax regulations must be properly researched and enforced by the SPS as it relates to inventory purchases and subsequent sales of products.

School Department Response

The School Department agrees with this finding. Faculty has been informed not to purchase items using a credit card. All purchases now flow through MUNIS and follow 30B requirements along with the Office of Procurement's policies and procedures. The new positions of Accounting Manager and Financial Analyst provide direct assistance for the fiscally-responsible oversight of deposits and disbursements.

15. Finding: Employee performed transactions that were not properly monitored by management

Several material purchases were made using a personal e-mail address and/or delivered to an employee's personal residence. An SPS issued e-mail address was inappropriately used for personal use and to solicit confidential student data.

Recommendation

We recommend that Putnam staff perform a physical inventory to verify existence of items personally purchased by the employee. We also encourage the SPS/Putnam to explore any violations of existing school policies.



School Department Response

The School Department agrees with this finding. All employees have since been addressed on the use of school resources for personal interest and the proper ordering, shipping, and billing procedures for purchases. A partial inventory has been performed and a more comprehensive inventory is being planned. Management will continue to play an active and consistent role in the supervision of shops.

16. Finding: School resources not properly budgeted/utilized or consistent

Improper planning and management oversight contributed to the creation of a large amount of ending inventory and depletion of resources. Private sales were effectively subsidized by paying teachers out of the City's general fund to complete numerous jobs on weekends and during the summer for the Graphic Arts program.

The sale of snacks as part of the Graphic Arts curriculum should be properly authorized and approved.

Recommendation

We recommend that Putnam Administration perform an actual physical inventory count of any remaining shirts maintained by the Graphics Arts department. Marketing and other methods should be utilized to try to sell as many shirts as possible from ending inventory to recoup school resources. A good inventory control system and outlined procedures for reporting departmental financial activity should be put into place to hold departments accountable for purchases budgeted and actual sales realized.

We encourage Putnam and the SPS to explore whether City departments should be encouraged to contact Putnam for printing jobs such as business cards, uniforms, etc. in lieu of the Graphic Arts program soliciting private sales to citizens City of Springfield; the City itself could then invest in helping students while making the best use of available resources.



If the sale of school snacks or other items is deemed a priority, we recommend that the services are properly procured so that no procurement laws or policies are violated. Collaboration with the current school lunch vendor may be appropriate to ensure federal meal regulations and requirements are adhered to.

Proper oversight of the department by the Chapter 74 Director, the Principal, and other designated personnel must be maintained and enforced at all times. Putnam administration should approve all vocational projects accepted and any prices set for the general public. The School Committee should ensure Putnam adheres to School Committee policies including any adopted applicable to the Chapter 74 framework.

School Department Response

The School Department agrees with this finding. With proper policies and procedures now established, the new administrative team at Putnam is striving for the school to achieve maximum potential in the Vocational field. Designated personnel are encouraged to communicate the capabilities of Putnam shops. This enthusiasm coupled with firm managerial involvement ensures the optimum use of school resources.



G. OTHER ACTIVITIES CONDUCTED BY PUTNAM STAFF

During the course of our review, it was communicated to OIA that employees were routinely selling items to students and faculty in the school building sometimes interrupting actual classroom instruction times to do so. There was a large range of items sold; allegedly anything from hot dogs to wrist watches. These activities were not authorized by Putnam's current Principal and the activities were subsequently closed.

Further examination of one particular instance of an employee selling items at Putnam yielded the findings listed below. All findings were communicated to Putnam and SPS administrators during the course of our review.

What OIA found

We discovered an employee selling snacks for at least a three year duration. The employee was authorized by the former Principal to receive an extra-curricular stipend for this activity from FY 2007 to FY 2010. This operation was particularly of concern because all activity for multiple years was confirmed to have been maintained in the employee's personal bank account. Outlined below are some of the significant deficiencies that were discovered regarding this particular instance:

- Upon request, the employee provided personal bank statements for the checking account used for snack transactions. Statements were provided from August 2007 through January 2011. During that period deposits were made to the account of \$135,428. Disbursements from the account included electronic payments to American Express, Bay State Gas, and WMECO therefore indicating that Putnam transactions were co-mingled with personal transactions. Additional disbursements were paid by check with no payee or supporting documentation provided. Transfers were made to and from an additional checking account and three personal savings accounts.
- Further investigation revealed that some of the cash proceeds from snack sales were retained for the employee's own personal benefit before being deposited. The employee admitted to OIA that on average about \$1,000 per quarter of cash sales proceeds were



retained as personal compensation. That would equate to over \$12,000 in compensation taken by the employee that was not properly recorded through the City's payroll system for a three year period.

- Credit card rewards received as a result of numerous snack purchases were retained by the employee rather than remitted to the City. Only three months of Credit Card statements were provided by the employee. The statement provided by the employee for the period ending January 7, 2011 indicated that a total of \$979.56 in cash rebate rewards were earned in 2010.
- Students were allowed to sell snack items for cash without any adult supervision.
- The employee admitted to paying students with both cash and merchandise.
- A cash register was not utilized for sales; receipts were not provided to anyone making a purchase. Cash was casually placed in a box lid as it was collected by students.
- Cash at the end of a "shift" was placed in a paper cup and taken through the school by students to the employee's office without either the student or the employee counting and documenting the transfer of funds.
- Cash was routinely taken off of the premises to the employee's personal residence and stored until the deposit was made.
- Thefts of cash and products occurred in the past; according to the employee an average of \$150 a week in inventory discrepancies was typical.
- Snacks were purchased and sold without regard to peanut allergies, adopted nutritional guidelines, appropriate procurement of the service or products, or proper research of any applicable regulations.

Written correspondence from the employee stated that the types of snacks that were sold were per the "A-List" published by the John Stalker Institute. We discovered that the A-List is a listing of actual products that the John C. Stalker Institute of Food and Nutrition compiled to assist schools in their efforts to make improvements to their nutritional environment. The following language is noted on their website, "This list is not reviewed or approved by USDA; products on this list are not approved or endorsed by USDA and all products may not meet the Gold Award of Distinction criteria." We examined a sample of the snack items purchased for



sale at Putnam and compared them to the A-List. Out of the twenty-six items searched we found that only eleven (42%) were on the A-List and fifteen (58%) were not on the list. This seemed to directly correlate to the percentage of items the employee noted as sold: in our sample, 40% of sales were attributable to items on the A-List and 60% of sales were from items not on the A-List. The items not on the list included popular beverage brands such as Arizona, Fuse, G2, and Sobe. Also not included on the list were snack items such as Pringles and Slim Jims.

The snack sales activity was terminated by the current Principal January 3, 2011 due to what the SPS CFO described as, "...concerns about the lack of internal controls and the absence of proper cash management procedures. Additionally, guidelines adopted by the School Committee for nutritional wellness were not followed as evidenced in the items being sold at the store." The employee was asked to write a check to the City for the amount remaining in the personal checkbook account; a check was received by the City from this account of school funds of approximately \$4,700.

Why is this important

Prior authorization of any school sales activity helps to ensure that school collections are properly collected and deposited to benefit students. When bank accounts other than the City's bank account are utilized for such activities there is an inability for supervisory staff to properly monitor transactions. Implementing and maintaining good internal controls will help to certify that errors or irregularities are promptly detected.

Documenting each transfer of cash between parties helps to ensure the amounts are properly accounted for and complete. When cash is not effectively safeguarded, including the use of adequate documentation for changes in the custody of cash, there is a risk that it could be lost or misappropriated. Additionally, it becomes extremely difficult to determine who the offender is in those instances.

Proper procurement of services related to the purchase and sale of food items helps to ensure that federal guidelines are properly adhered to and that negotiated discounts are properly utilized to maximize the use of limited school resources.



17. Finding: Various instances of employees selling goods to students and others without approval or proper monitoring

Prior Putnam administration failed to adequately approve, supervise and monitor the various financial operations that individual employees were performing. There was also a failure to ensure that adequate records were maintained regarding purchases, sales and remaining inventory. Revenue collections were never analyzed to determine if expected amounts were properly receipted and deposited or if any misappropriations occurred.

Recommendation

All fundraising activities and curriculum related sales should receive prior authorization by the Principal. The authorized responsible individual should be required to maintain detailed records as to the transactions related to that activity. Pre-numbered receipts (either manual or via a cash register) should be utilized to record sales transactions for each activity. The Principal or the Principal's designee should periodically require that supporting documentation for revenue collected is submitted along with total collections to the main office for deposit and analysis. The responsible individual should be able to verify that the amounts are correct and to immediately be prepared to explain any differences. Expenditures should only be made through the City's accounting system, MUNIS. Until proper internal controls can be developed, implemented, and enforced, we recommend that these types of activities should remain closed. If the sale of school snacks or other items is deemed a priority, we recommend that the services are properly procured so that no procurement laws or policies are violated. Collaboration with the current school lunch vendor may be appropriate to ensure federal meal regulations and other requirements are adhered to.

School Department Response

The School Department agrees with this finding related to activities that occurred under the preceding administration. The school store has been disbanded and will remain so until sound policies, procedures, and monitoring are assembled. The new administration at Putnam has



made it a point to establish clear-cut guidelines and to be informed of any student-related commerce so that proper authorization may be granted or denied.

18. Finding: Profits from snack sales retained as compensation

Gross sales were not properly recorded. Instead, cash was removed by the employee from snack sale revenue generated by students and the net amount was deposited into the employee's personal bank account. The amounts retained were either paid to students or utilized for personal use or personal benefit. Cash rewards earned on the employee's personal credit card when used to purchase inventory were retained by the employee and not remitted to the City.

Recommendation

A policy should be developed that prohibits any employee from performing an unauthorized activity or an activity that results in personal gain to that employee. An additional policy should be established that requires collections to be deposited in the exact amount that they were collected. Amounts should not be withheld from the deposit of collections for any reason. Any and all compensation payments must be approved and paid through the City's payroll system.

We encourage the SPS to explore any ethical standards that may have been violated as well as any payroll reporting issues that may be applicable. Any unauthorized revenues that were withheld should be required to be remitted back to the City.

School Department Response

The School Department agrees with this finding. All associated employees have been addressed and no longer have access to any fundraising or monies. Protocol has been communicated to staff forbidding any internal conduct that leads to personal gain. To further enforce workplace etiquette, mandatory ethics training will be required of all personnel.



19. Finding: Weaknesses found in safeguarding of cash

We learned that cash was thrown into a box lid as it was collected from customers for snack sales. Multiple students had access to the cash and were solely responsible for the collection from customers and subsequent remittance to the employee from a cup which was carried through the school hallways to the employee's office. Cash was routinely taken home by the employee. It was admitted that thefts had occurred in the past.

Transfers of cash between individuals were not properly documented.

There was not a proper segregation of duties in the issue regarding snack sales. The receipt of cash, bank deposits made, and the maintenance of accounting records were performed by the same individual.

Recommendation

Cash should be physically safeguarded at all times. The physical receipt of cash should always be strictly controlled in that it should have limited access and amounts should be contained in locked cash drawers, locked metal boxes, cash registers, or safes on the school premises. Any thefts or shortages should be immediately reported and a police report should be filed.

We recommend that all cash receipts be collected at Putnam's main office using a cash register that is compatible with the City's accounting system, MUNIS. A receipt should be provided for every transaction. We further recommend that the collection of cash should not be performed by individual teachers whenever practical. If required, however, proper accounting controls such as segregation of duties and appropriate documentation (ex: pre-numbered receipts given to all patrons, posted price lists, preparation of turnover reports for management) should be in place to ensure that all school collections are properly deposited into the City's bank account and that any errors or omissions are identified and reported promptly. Controls over the custody of cash should also be established and monitored (procedures for collection of cash, transfer of cash, use of locking cash boxes or cash registers, etc.).



Each transfer of cash should be documented by a signature and a notation as to the amount transferred by both the person giving and receiving the cash. This should be applicable to all cash transfers including but not limited to cash used at the start of the day as a starting amount to be used to make change and cash turned over to another individual for deposit to the bank.

Cash should typically not be held on the premises overnight but if necessary, it should be held in a safe in a secure area away from the public. The safe combination should periodically be changed to discourage sharing of the combination by employees and always changed due to employee turnover of key employees.

School Department Response

The School Department agrees with this finding. Combinations have been changed to the two safes located in the main office, with a limited number of designated individuals having access to each. The aforementioned armored car pickup occurs on a weekly basis to prevent risky handling of money. The impending installation of MUNIS cash registers and the current use of internal tracking invoices will tighten accounting controls and ensure accurate practices.



H. OTHER ITEMS

Items Referred to the City Solicitor

We were contacted by Putnam staff to review and compare vocational amounts deposited to individual shop records. We found that Putnam had not adequately established internal controls over the revenues received from vocational programs. As a result, we discovered one example where at least \$14,268.55 in vocational funds collected were not subsequently deposited and therefore potentially misappropriated by a Putnam employee between June 2010 and December 2010.

We obtained bank statements from Putnam staff and also from Hampden Bank. In reviewing the bank statements, we discovered several unauthorized transactions from the Student Association account between June 2010 and August 2010 in the aggregate amount of \$1,610.00. The OIA contacted the City Treasurer to ensure that the account was immediately closed and that all questioned transactions were properly researched and supporting documentation requested. The questioned transactions were found to be diverted for personal use by two Putnam employees.

We reviewed travel and expense reimbursements for multiple Putnam employees. In performing our review we found \$5,441.61 in travel reimbursements that were paid to one employee both from the City and from Putnam's Student Association checkbook.

We took immediate actions to address these matters by bringing them to the attention of Putnam's new Principal, school officials, and the City Solicitor who, subsequently referred the issues to the appropriate law enforcement officials.

We also found instances that may be potential violations of state ethics laws that we communicated to the City Solicitor. These included examples where subordinate employees were asked to perform work for their supervisors on their personal residences.



Additional Expenditures

As previously stated, appropriate controls over the Student Association Account and administrative oversight of cash handling were severely deficient. We discovered numerous additional expenditures that should be mentioned.

There were expenditures that either circumvented proper recording in Putnam's accounts and the City's accounting system or there is no evidence that they were allowable expenses:

- Two checks totaling \$7,875.00 to a vendor were paid from the Student Association checkbook by the former principal after requests for payment to the same vendor from the City were rejected by the City because a contract was not in place for compliance with state procurement laws
- Funeral expenses in the amount of \$1,900.00 paid from the Student Association account which do not meet the requirement cited by the Massachusetts Department of Revenue that expenditures must be made for a public purpose
- \$1,208.65 paid to a restaurant and the bill provided as backup documentation from the restaurant was only \$208.65
- A payment of \$1,200.00 was made to an employee as reimbursement for the theft of a personal Apple computer from the employee's vehicle and classified as a "repair"
- We found three "scholarship" payments for \$250.00 each in fiscal year 2010 with no evidence of what the criteria was or how students qualified
- "Perfect Attendance" checks each written in the amount of \$100.00 to six teachers from the Student Association account; the checks circumvented the City's payroll system and were not properly recorded as wages paid
- \$200.00 in cash revenue retained and used for expenses related to a party rather than deposited into the Student Association account
- "Token of Thanks" checks each written in the amount of \$50.00 to three teachers from the Student Association account; the checks circumvented the City's payroll system and were not properly recorded as wages paid



- Pants purchased at Old Navy for \$29.50 with \$50.00 cash by a senior administrator and later reimbursed from the Student Association account as a “repair” expense
- A Student Association check written to an individual for \$50.00 to be given out as “cash prizes”

Additionally we found four instances where duplicate payments totaling \$15,884.08 were made to vendors. In all instances it appears that the overpayments were either refunded or applied to subsequent invoices issued.

We also discovered several instances confirmed by vendors where the vendors received payments on Putnam accounts not only by check but also by cash and credit card. Additionally in the samples we reviewed there were instances where the check numbers of the checks received by the vendors neither matched those of the Student Association account or of the City’s account. These instances indicate payments were made directly to the vendors by customers or staff which circumvented the City’s accounting system. One vendor in particular only received 10% of payments directly from Putnam or the City of Springfield from June 30, 2009 through July 15, 2010. The other 90% were from other checks, cash, and credit cards.

One of the vendors had a large amount of \$5,515.00 in “credits” that were applied to invoices from 1/1/08 – 10/12/10. The credits totaled \$5,515.00 or 14% of the amount of total invoices during that time period of \$36,960.45. The vendor confirmed for us that the credits were a result of customer payments made directly to the vendor; the payments were unusual in that the amounts exceeded the actual cost of the individual order resulting in a credit on Putnam’s account. The vendor also confirmed that a Putnam employee regularly made payments on account with either cash or customer checks.

Other Administrative Issues

We were advised by Putnam staff that there were several recent vehicle disposals. We did not perform any auditing procedures related to sales, retirement or disposal of assets or inventory. However we strongly advise Putnam administration and the SPS to work collaboratively with the City’s Office of Procurement in developing policies and procedures regarding the sale, scrap, or



disposal of assets and inventory. All disposals must comply with state procurement laws which will help the City in eliminating any opportunity for personal benefit from such disposals.

During the course of our review Putnam experienced some employee turnover. We found that the IT department and the Office of Procurement were not properly notified of the turnover. Employee access to e-mails and access to the City's accounting system were not timely disabled. Timely notifications of employee turnover and subsequent actions to disable access are essential to safeguard City assets.

PART I. ADMINISTRATION OF THE GOVERNMENT

TITLE XII. EDUCATION

CHAPTER 71. PUBLIC SCHOOLS

SCHOOL COMMITTEES

Chapter 71: Section 47. Athletic programs; school organizations; student activity accounts

Section 47. The committee may supervise and control all athletic and other organizations composed of public school pupils and bearing the school name or organized in connection therewith. It may directly or through an authorized representative determine under what conditions the same may compete with similar organizations in other schools. Expenditures by the committee for the organization and conduct of physical education, athletics, sports, games and play, for providing proper apparatus, equipment, supplies, athletic wearing apparel, including appropriate souvenir garments and trophies, and facilities for the same in the buildings, yards and playgrounds under the control of the committee, or upon any other land which it may have the right or privilege to use for this purpose, and for the employment of experienced athletic directors to supervise said physical education, athletics, sports, games and play, shall be deemed to be for a school purpose. Expenditures by the committee for making special awards to pupils who have performed meritoriously in the fields of art, debating, distributive education, music, science, social studies or languages shall also be deemed to be for a school purpose. Cities and towns may appropriate for the employment of coaches to supervise in public schools physical education, athletics, sports, games and play, and for the transportation and expenses of public school athletic teams, coaches, cheerleaders, bands and any other groups composed of public school pupils which bear the school name and are under the control of the school committee, within and without the commonwealth, to places where athletic contests or physical education, sports, games, play, musical festivals, competition or other events are held, and for the purchase of band and cheerleaders' uniforms and musical instruments for the members of bands composed of public school pupils and bearing the school name and under the control of the school committee. 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 or, in cases where the town is a member of a regional school district, with the treasurer of such district and held as a separate account and expended by said school committee without further appropriation, notwithstanding the provisions of section fifty-three of chapter forty-four. No moneys may be expended from an appropriation or from the separate fund authorized by this section except upon the approval of the school committee, or of the selectmen in towns and of mayors in cities, for travel to other states.

Notwithstanding the provisions of the preceding paragraph or section fifty-three of chapter forty-four, the school committee of a city, town or district may authorize a school principal to receive money in connection with the conduct of certain student activities and to deposit such money,

with the municipal or regional school district treasurer, into an interest bearing bank account, hereinafter referred to as the Student Activity Agency Account, duly established by vote of the school committee to be used for the express purpose of conducting student activities. Interest earned by such Student Activity Agency Account shall be retained by the fund and the school committee shall determine for what purpose such earnings may be used. In addition to such Student Activity Agency Account, the school committee may authorize the municipal or regional school district treasurer to establish a checking account, hereinafter referred to as the Student Activity Checking Account, to be operated and controlled by a school principal and from which funds may be expended exclusively for student activity purposes for the student activities authorized by the school committee. Such account shall be used for expenditures only and funds received for student activities may not be deposited directly into such account.

The school committee shall vote to set the maximum balance that may be on deposit in such Student Activity Checking Account. The principal designated to operate and control such Student Activity Checking Account shall give bond to the municipality or district in such amount as the treasurer shall determine to secure the principal's faithful performance of his duties in connection with such account. To the extent that the funds are available in such Student Activity Agency Account, funds up to the maximum balance set by the school committee shall be transferred from the Student Activity Agency Account through the warrant process to initially fund such Student Activity Checking Account.

Periodically, to the extent that funds are available in such Student Activity Agency Account, the municipal or regional school district treasurer shall reimburse such Student Activity Checking Account, through the warrant process, to restore the limit set by the school committee. The principal shall adhere to such administrative procedures as the municipal or regional school district treasurer or accountant may prescribe. There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education.

PART I. ADMINISTRATION OF THE GOVERNMENT

TITLE XII. EDUCATION

CHAPTER 74. VOCATIONAL EDUCATION

VOCATIONAL SCHOOLS

Chapter 74: Section 14B. Culinary arts; revolving fund

Section 14B. In any city or town which accepts the provisions of this section, any income received in a fiscal year not exceeding, in the aggregate, fifteen thousand dollars derived from the purchase and sale of products produced in the culinary arts subject area of the home economics program, or any other vocational-technical program conducted in any public vocational-technical high school shall be deposited in a special fund by the school committee in any banking institution in the commonwealth. Expenditures may be made from said fund by the school committee for purposes needed for the culinary arts subject area or in the case of a fund established for any other program, such funds may be expended for the purposes of such program area without further appropriation, notwithstanding the provisions of section fifty-three of chapter forty-four; provided, however, that said special funds shall not be used to pay the salary of any employee, and in any fiscal year no more than five thousand dollars from said funds shall be used in the purchase of equipment. Three years from the year a city or town accepts the provisions of this section, and every third year thereafter, said city or town may act to rescind its original acceptance. The superintendent of a school district with such a fund shall submit annually a report of said fund to the mayor, city council, city manager, board of selectmen or town manager of each city and town in said district and a copy of said report shall be submitted to the director of the bureau of accounts. The provisions of this section shall be effective in any regional school district upon its acceptance by the school committee of said district and a majority of the towns and cities and said district by vote of the board of selectmen or city council of said cities and towns.

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Archived Information
Accounting and Auditing
Student Activity Accounts

Memorandum

To: Superintendents
From: Robert V. Antonucci, Commissioner
Date: May 31, 1996
Subject: Student Activity Accounts

Legislation has recently been enacted to allow school districts to set up checking counts for use by school principals in spending monies collected through various student activities. A copy of this statute (Chapter 66 of the Acts of 1996) is enclosed.

I encourage you to use this new authority to replace any unofficial and unauthorized bank accounts which may have been established in your district to handle student activity receipts. In the aggregate, many thousands of dollars in receipts and expenditures are generated as a result of school sponsored student activities. Chapter 66 provides a way for school managers to handle these financial transactions quickly and efficiently, with reasonable safeguards.

Procedures to govern the use of these new student activity accounts should be adopted by the school committee, after consultation with your business manager, municipal or district treasurer, and municipal finance director, as appropriate. As a guide, the Association of School Business Officials (ASBO) has two publications, "Guidelines for Student Activity Fund Accounting" and "Internal Audit Guide for Student Activity Funds", that will assist in establishing procedures.

The procedures should include a requirement for an annual audit of these accounts, as required by the statute. At a minimum such audits should include:

- a. a reconciliation of the cash balances as shown in the checkbook and bank statements;
- b. a review of compliance with the school committee's adopted procedures; and
- c. a review of the supporting documentation for a randomly selected sample of payments.

These annual audits can be conducted by personnel in the school business office or the municipal finance office. For accounts with authorized limits exceeding \$25,000, districts should consider having the audit conducted by an outside accounting firm at least every two or three years.

Please share this information with your business manager. If you need any additional information, please contact Jay Sullivan at (781) 338-3000. Thank you.

last updated: May 31, 1996

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