



100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

October 25, 2013

Barbara Fletcher, Chairperson
Wayland School Committee
Town Hall Building
41 Cochituate Road
Wayland, MA 01778

Dear Ms. Fletcher:

This letter is in response to your email dated October 23, 2013 where you requested that I clarify our process of reviewing the activity of the principal's discretionary accounts at the five schools along with the METCO account. Our procedures were the same for all six accounts however the documentation available to support the transactions were different at each location. I believe we explained in each section of our report, dated August 27, 2013, the level of unresolved transactions and related findings.

My understanding of your concern is that we had more findings related to METCO expenses compared to the other schools. Another issue you raised related to why additional information was not requested for missing bank statements for two schools while we asked the METCO Director to provide copies of her personal credit card statements. I believe our report identifies the reasons but I will try to clarify these issues.

The majority of all expenses in each of these six accounts were identified as expenses related to school purposes or for teacher sunshine funds. We had a general finding that applied to each account that stated the use of discretionary accounts are a violation of laws and regulations. When we performed our initial risk assessment, our first consideration was to determine the total dollar amount of expenses along with the average dollar value of each payment. Lower dollar values may generate compliance violations but the financial risk is mitigated.

The expenses for this type of account are usually a series of lower value transactions due to the fact it is difficult to generate any significant funds to deposit. The type of expense is usually limited to similar purchases that recur each week, month and year. Therefore we can make reasonable assumptions when reviewing the transactions. For example, when weekly purchases of Dunkin Donuts for teacher's meetings that are fully supported with receipts, and then we find an unsupported Dunkin Donuts purchase for a similar amount we can reasonably conclude that it is probably for the same purpose. The lack of documentation is a compliance finding but we would not ask for additional support due to the dollar value of the purchase. We made these types of educated reasonable assumptions for all six accounts.

I bring up these factors for the discretionary accounts because these were factors that we found for all six accounts. In the following paragraphs, along with the our report, we will explain these factors but that METCO had two types of transactions that were unique and pertained only to METCO which generated the findings.

The High School only spent \$45,000 and the Middle School only spent \$24,000 and both used QuickBooks that most times explained the purpose of the expense. We reviewed all of the activity and did not find any evidence that checks were made out to cash. Therefore there were no significant findings.

The Happy Hollow Elementary School only spent \$64,000 and the supporting documentation was captured on Quicken, check books and most bank statements were available. The Quicken software most times explained the purpose of the expense. Even though we were missing a few bank statements, the results of our testing for transactions when the bank statements were available supported the explanation in the Quicken files. Therefore those results allowed us to conclude that it is likely that if we had the missing statements the same results would occur. We also considered the fact the average expense was less than \$100, therefore any compliance violation we found due to the fact we did not review a bank statement would have a minor financial impact. We reviewed the activity and did not find any evidence that checks were made out to cash.

The Claypit Hill Elementary School only spent approximately \$67,000 and the supporting documentation and ledger were inconsistently maintained. We were able to find various levels of supporting documentation for approximately \$40,000 of expenses. Most were school or sunshine related which left only \$27,000 of unsupported expenses. We found no evidence that checks were made out to cash. As we stated in the report, there is a possibility that these funds were spent on other than school purposes, however we felt that it is reasonable to conclude that most of the unsupported expenses would be for purposes similar to the \$40,000. We also considered the fact the average expense was less than \$100, therefore any compliance violation we may have found due to the fact we did not have any supporting documentation would have a minor financial impact. In our report, we did **not** state that we found no significant issues with this account but instead solely from a dollar value standpoint we did not believe it would be cost effective to conduct any further procedures.

The Loker Elementary School was missing 23 bank statements from July 2006 through May 2008. We were provided 33 bank statements from June 2008 through February 2011, the month the account was closed. These bank statements did not include copies of the cancelled checks. We used the detail in the 33 banks statements to summarize the activity and found \$16,000 in expenses from 55 transactions over the 33 months. This is an average of less than \$500 per month. The activity is comprised of twenty two checks that had supporting documentation and totaled \$3,500 for an average value of \$160 per check; nineteen checks were unsupported and totaled \$5,800 for an average value of \$305 per check including one large check for \$2,110.69; and fourteen unsupported checks that were issued in even one hundred dollar amounts that total \$6,800 with one check being \$3,000. We have found that checks issued in even hundred dollar amount are usually for petty cash advances, payments to employees as an advance related to a field trip or transfers to other funds. If we had the full bank statement we would assess the risk associated with these checks as high. Since we did not have the cancelled checks or other documentation we did not have any evidence that checks were **not** made out to cash.

In our report, we did **not** state that we found no significant issues with this account but instead solely from a dollar value standpoint we did not believe it would be cost effective to conduct any

further procedures. If we pursued this further beyond the original scope of the engagement, we would charge the School our average standard billing rate of \$150 per hour. We would have to review and compile the information on all 56 months of banks statements. If we assume ½ hour to compile the 56 statements, we would bill for 23 hours for a cost of \$3,450. The partner would need to analyze the activity; review the findings with School management; and write the findings for another \$2,000. The School normally would have to pay the bank to receive all 56 months of statements which may be costly. The cost could easily reach \$8,000 just for Loker. Our experience tells us that we would still not have any invoices to support a lot of these transactions and would be making assumptions based on the vendor paid.

There is no absolute answer as to whether the cost outweighs the benefits to continue looking into the unknown and unsupported transactions. We cannot make a recommendation to pursue this with any type of guarantee that there will be additional findings once the additional information is received.

The METCO discretionary account had over 600 withdrawals by check and debit cards for a total of \$177,000. The amount of activity was significantly larger than any one of the schools for the same period of time. All bank statements were available for review, there was no ledger maintained and the supporting documentation was limited. However there were check book registers that many times explained the purpose of the expense. What was different in the METCO account were two significant types of transactions that occurred only in METCO and we found no evidence that they occurred in the other discretionary accounts. Therefore these findings are only reported for METCO.

The METCO Director used the discretionary funds to directly pay down her personal credit card account 25 times for a total of \$20,440. As with all of these discretionary accounts, there was no oversight by School management which increased the possibility of misappropriation of funds. We reviewed all of the other accounts and we did not find any evidence that any credit cards were paid down by using the discretionary account funds. This transaction is unique for METCO. Any reasonable person would question the appropriateness of these payments and realize that there is a serious breach of internal control. The \$20,000 amount is considered significant.

We discussed this matter with the Director and she informed us there was no documentation to support these payments. There were no ledgers that detailed the METCO expenses charged to the personal credit card; there were no invoices that supported the charges to the personal credit card; and the Director stated that all of her personal credit card statements were thrown away. Paying off personal credit cards with METCO funds creates a problem different than writing a check to a third party vendor without supporting documentation. There is a possibility that a direct personal benefit could have occurred.

In an effort to find a way to support the Director's statement that she used her personal credit card for METCO expenses, we suggested that if she was able to obtain copies of the statements we could work with her to tie in the charges to the actual payments. Although this would not be perfect documentation, it would provide support that this was bad accounting and not a misappropriation of funds.

Without any supporting documentation we are left with the undisputed fact that METCO funds were used to directly pay off a personal credit card. We cannot come to any conclusion as to whether the payments were to reimburse the Director for METCO expenses charged to her personal credit card.

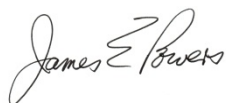
As stated in our original report that unlike the school discretionary accounts, METCO had \$18,000 of checks made out to cash and ATM withdrawals. We consider checks made out to cash or ATM withdrawals to be a material weakness in internal control which increases the possibility of misappropriation of funds. Therefore this finding is warranted and unique to METCO. Of the \$18,000, \$13,000 had support that identified the payments as being METCO related and the finding related to bad accounting by using cash to pay for services instead of writing a check payable to the vendor. The other possibility is that full amount of the cash was not paid to the vendor.

The remaining cash withdrawals were explained to us that they related to the payment of student bus monitors. This finding again points out the problems related to cash withdrawals instead of paying the vendor directly even if it is a student.

The findings for METCO and all other activities are warranted and are supported by the evidence or lack of evidence available. If the School Committee decides that it wants additional procedures be performed on bank statements that are currently not in your possession the Principal that was the authorized signer on the bank account should be the person to make the request. We cannot make the request. Once the bank statements are received we will extend the agreed-upon procedures to these documents.

I hope this letter addresses your concerns and if you have any further questions please do not hesitate to contract me.

Sincerely,

A handwritten signature in cursive script that reads "James E. Powers".

James E. Powers CPA

Partner