

Powers & Sullivan

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March 31, 2009

Mr. Brian Sullivan, Town Manager
730 Massachusetts Avenue
Town of Arlington, Massachusetts 02476

Dear Mr. Sullivan:

At the Town's request, we have reviewed the activity in the Town's school special revenue funds pertaining to the Title I Grant, Athletic Fee High School Revolving Account, Athletic Fee Miscellaneous Revolving Account, All Day Kindergarten Revolving Account, Hardy Extended Day Revolving Account, and Instrumental Music Fee Revolving Account, for the fiscal year ended June 30, 2008. The purpose was to review for activity, transfers, or journal entries that occurred, that diverted expenditures from the Arlington School Department's general operating budget to these specific grant and revolving accounts.

Under the Town's current operating procedures, all invoices charged directly to special revenue funds are subject to review by the Comptroller's office prior to the payment of the bill. This system provides for certain internal controls that invoices are for costs that are eligible to be charged to the particular special revenue revolving or grant accounts. A similar control process takes place with invoices charged to general fund appropriations, where the Comptroller's office verifies that the invoices are for legal expenditures for the Town, and that they are charged to the appropriate department's either salary or expense account. For the School Department, the review process verifies that the invoices are for legal expenditures, and that the operating budget has available funds to pay the invoice, but does not verify the specific line item within the School Department's budget that is charged. In other words, the School Department is responsible for its own operating budget and has limited oversight from the Town Comptroller's office. Similarly, the School Department has the authority to make journal entries in the ledger system without providing support to the Comptroller's office for review and approval.

In accordance with the system described above, the School Department has the ability to reclassify expenditures from the general fund into special revenue accounts without the review and approval of the transactions by the Comptroller's office. As described in detail in this report, the School Department has made such transfers during fiscal year 2008, to reclassify expenditures from the general fund to the special revenue funds under review. Such reclassifications are considered common for the School Department, as they regularly charge expenditures to the general operating budget throughout the fiscal year, and move them to the appropriate grant and revolving funds toward the end of the fiscal year. Although this is not an indication that special revenue funds were in any way misused, it does reduce the oversight of the expenditures by the Comptroller's office, as the reclassifications are entered into the general ledger directly by the School Department without providing supporting documentation to the Comptroller's office. This is considered a deficiency in internal control.

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Title I Grant Account

All expenditures from the Title I Grant Account were charged directly to the special revenue fund as they occurred. Our review did not identify any reclassifications of expenditures from the school's operating budget to the Title I Grant Account during the fiscal year.

Athletic Fee High School Revolving Account

The School Department charged the majority of the athletic fee costs to the general fund operating budget lines appropriated for such costs. At the end of the fiscal year, expenditures were reclassified from the general fund appropriation accounts for athletic supplies, boy's athletics, girl's athletics, boy's athletic transportation, girl's athletic transportation, boy's athletic stipends and girl's athletic stipends to the Athletic Fee High School Revolving Account totaling \$190,613. All transfers of expenditures made to this fund were from general fund appropriation accounts that were for similar activities. Therefore, these expenditures would have been allowable costs in either fund.

Athletic Fee Miscellaneous Revolving Account

The School Department charged the majority of the athletic fee costs to the general fund operating budget lines appropriated for such costs. At the end of the fiscal year, expenditures were reclassified from the general fund appropriation accounts for boy's athletic stipends and girl's athletic stipends to the Athletic Fee Miscellaneous Revolving Account totaling \$55,649. All transfers of expenditures made to this fund were from general fund appropriation accounts that were for similar activities. Therefore, these expenditures would have been allowable costs in either fund.

All Day Kindergarten Revolving Account

All expenditures from the All Day Kindergarten Revolving Account were charged directly to the special revenue fund as they occurred. Our review did not identify any reclassifications of expenditures from the school's operating budget to the All Day Kindergarten Revolving Account during the fiscal year.

Hardy Extended Day Revolving Account

The majority of the expenditures from the Hardy Extended Day Revolving Account were charged directly to the special revenue fund as they occurred. At the end of the fiscal year, expenditures were reclassified from the general fund appropriation account for transportation salaries to the Hardy Extended Day Revolving Account totaling \$10,000. The transfer of expenditures made to this fund was from a general fund appropriation account that was for similar activities. Therefore, these expenditures would have been allowable costs in either fund.

Instrumental Music Fee Revolving Account

The majority of the expenditures from the Instrumental Music Fee Revolving Account were charged directly to the special revenue fund as they occurred. At the end of the fiscal year, expenditures were reclassified from the general fund appropriation accounts for Ottoson music salaries, performing arts, and Ottoson custodial services to the Instrumental Music Fee Revolving Account totaling \$69,000. All transfers of expenditures made to this fund were from general fund appropriation accounts that were for similar activities. Therefore, these expenditures would have been allowable costs in either fund.

In summary, our review identified several expenditures that were reclassified from the school's general fund operating accounts to the special revenue accounts included in our analysis. However, all of the reclassifications were for expenditures that would have been eligible costs in the special revenue accounts that they were reclassified to.

We recommend that in the future, the School Department charge expenditures to the revolving accounts as they occur during the fiscal year. This would provide an increased level of control as the Comptroller's office would have the ability to review the invoices that are charged to the special revenue accounts as they are processed for payment. This would also allow accurate account analysis of the available balances in both the general fund appropriation line items as well as in the special revenue accounts throughout the fiscal year.

We recommend that the Town provide the same level of oversight for journal entries as it does with direct expenditures made by the School Department.

This report is intended for the information and use of management of the Town of Arlington, Massachusetts, and is not intended to be and should not be used by anyone other than these specified parties.

We hope that you find this information helpful, and will be available to discuss our findings further, as you see necessary.

Respectfully,



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