



"We help children learn."

Massachusetts Department of

Education

School Building Assistance

Audit Procedures - November, 2001

The School Building Assistance Unit within the Department of Education administers a program of state construction assistance under provisions of Chapter 70B of the General Laws and Regulations on School Construction ((603 CMR 38.00)). These procedures are promulgated to assist a grant recipient in preparing and documenting the final approved costs of the school construction project. Audit materials must be submitted to the School Building Assistance Unit in a form as prescribed below. Department staff will review the submitted materials and will make necessary adjustments. Subsequent payments will be adjusted to reflect the actual approved project cost on an equal annual payment schedule to begin in the fiscal year following the fiscal year the audit is performed.

The following information details the components for which the state Board of Education is required by statute to make a useful life finding for purposes of approving a school building assistance grant.

General

The audit procedure for school construction grants and reimbursements begins when an approved project is assigned a "Project Number" by the School Building Assistance Unit. On an annual basis, subject to legislative authorization, grant recipients are notified of funding authorization. The grant recipient receives a "Project Number" upon notification to the Department that construction has started. This number is the identifier that should be used in all future correspondence. At this time every effort is made to acquaint the district or municipality with the manner and method of the audit and the records which will be required. In the normal course of events, several years pass before a project is completed and before the audit materials reach the Department of Education. Throughout this period, the municipalities receive annual payments that are based on estimates determined at the time of approval.

Audit Material

All material necessary to determine the final cost of a school construction project must be submitted to the Department of Education. The materials must include all votes of the town which pertain to the construction and equipping of the school project. These votes shall be certified by the Town clerk and should consist of the following:

1. All appropriations. This would include investigating, planning and other expenses incurred prior to the vote for bond issue or acquiring funds in any other manner for the project, as well as subsequent appropriations for the completion of the project. This would include town meeting votes, school committee minutes for use of operating money or other transfers, letters recording gifts and written documentation of all sources of funds.
2. All originally signed copies of every contract, change order, specification and purchase order (per 2.d. below)
 - a. A signed copy of every architectural and construction contract.
 - b. A signed copy of every change order to the architectural and construction contract
 - c. A copy of the specifications for all prime contracts.

- d. A copy of every purchase order for equipment and furnishings unless invoices properly describe the items furnished.
3. A Final Form F (Financial form) detailing the actual cost of the project and the method of financing signed by the city or town treasurer. The Form F itemizes the project cost in broad categories and must include the square footage and distinguish costs for renovations and new construction. Costs that do not correspond to the requested categories should be reported as Other Costs and itemized, as appropriate based on the magnitude of the dollar amounts.
4. A debt schedule issued and signed by the bank where any of the bonds were issued supporting the actual interest costs as reported on the Form F. Schedules and interest expenses should be submitted for all bond anticipation notes (BANS), as well as bonds.
5. A Schedule of Bills Paid supporting the actual cost claimed on Form F
 - a. Invoices should be listed separately by vendor and by classification as listed on the Form F.
 - b. The classification sub-totals must equal amounts claimed on the Form F.
 - c. Copies of vendor invoices must be arranged in order of appearance on the Schedule of Bills Paid.
6. A vote of the *School Committee accepting the project for school purposes*.
7. Verification of conformity with original approved project submission or approved amendments.
 - a. Copy of final Educational Specifications
 - b. Certification from Architect that building dimensions, including room sizes, corridor dimensions offices and core area dimensions are as documented in the approved educational specifications.
 - c. Description of play areas, parking and fields corresponding to original approval
 - d. Description of work relating to renovation or replacement of major building components, e.g. roofs, HVAC, energy efficiency, building accessibility , structural or environmental hazards corresponding to original approval.
 - e. Description of specific site related work corresponding to a waiver granted by the Board of Education.
 - f. Upon request, district must provide as built-drawings.

Maintenance of Audit Material

The city, town or regional school district shall maintain all records related to any school construction project for seven years after the final cost is determined and shall retain the final project drawings for as long as the completed facility is in service as a public school. Although the task of retention and compilation of audit materials may be designated to the local school business office or other local school district office, the "borrowing entity" is responsible for maintaining audit records. It is suggested that both the school district and the municipality maintain duplicate copies.

When to submit Audit

Section 38.12 of the School Building Assistance Regulations requires the Board to determine the final approved project cost within *two years* of the occupancy of new space, or in the *year of the third payment*, whichever occurs

later. Audit materials are due in the Department by December 1 of the fiscal year in which the audit is scheduled. Failure of the grant recipient to provide the Department with satisfactory audit materials will result in the suspension of the payment schedule effective July 1 of the fiscal year following the fiscal year the audit is due. If an audit is delayed beyond a reasonable point, payments are suspended until such time as sufficient documentation is made available to determine the final approved cost. Suspended payment schedules shall not be reinstated until the fiscal year following the fiscal year in which the audit is performed. The purpose of suspension is to avoid unintentional overpayment.

CAPITAL PROJECTS

Total Project Costs

When the Board of Education approves a school construction project it does so on the basis of estimated approved costs from which an estimated grant is determined. The grant is based upon estimated costs of constructing, renovating and originally equipping the approved capital project and is limited by the maximum allowable cost as prescribed by School Construction Regulations. The estimated costs are based on the submitted application material which outlines the specifics of the construction or renovation project including site work, equipment and other eligible costs as will be described below.

The total square footage, upon which the state grant is based, is calculated by multiplying the number of students planned for the building by the per pupil space allowance by grade range in CMR 38.05. Additional square footage may be added to accommodate priorities of the Board of Education, (e.g. special education, technology, collaborative, community space). The maximum allowable cost is based on the square footage of the project *as approved* by the Department of Education. The allowable cost per square foot is approved each year by the Board of Education. Upon determination of the final approved cost of the project, the Board may recompute the maximum cost limitations using the cost standards in effect on the date that work began under the general contract, and the grant may be adjusted accordingly.

In determining the allowable costs for an addition or renovation, the Department will consider the nature of the approved spaces to be added, the amount of renovation, the nature of the required equipment and other furnishings, the need for site work and any factor which would cause the cost of the addition to approach the cost standard established for new construction.

Changes to the Project or to the Cost

Significant changes to the scope of the project or the submitted estimated construction and interest costs *must* be approved by the Department of Education. It should not be assumed that these changes in scope or costs after initial approval will be included and eligible for reimbursement during the final audit. In addition, it should not be assumed that the maximum allowable cost for each project will be approved. The allowable cost will be based on the application materials and other items, including but not limited to the type and nature of the proposed project, past school construction funding for the building, the educational plan of the school committee and adequacy of the applicant's maintenance plan and any factor which has caused the final cost of the project to exceed substantially the original estimated cost.

Reimbursable Costs

In general, all costs associated with the construction, renovation, addition, acquisition and original equipping an approved project may be included. As the provisions of the statute have changed over the years, the provisions of law in effect at the time of approval govern projects by the Board of Education or which affect the project by reason of retroactivity.

All expenditures must be incurred by school opening in the year following the occupancy of the building. For example, if the school is occupied in September, you have until the following September to make the final expenditures on the project. If the school is occupied in February, then you have 18 months to complete the final expenditures for the project. (February through August of the following school year)

Exceptions to the time frame may include:

- **Litigation:** The Department of Education must be notified of litigation that may delay the final cost of the project. The reasons and the purpose of the litigation must be outlined as well as the steps taken in order to avoid litigation. The final disposition of each litigation must be included in the audit documentation. (e.g. won in court, settled out of court, lost in or out of court)
- **Disputed Costs:** At the Department of Education's discretion, approval of final costs may be delayed beyond the timeframe mentioned above if the applicant can clearly document outstanding issues that could not be resolved.

Those costs that are generally approvable are:

1. General Contract: The cost of the general contract and construction supervision, including the project or construction manager. The cost of Sub Contractor services may be included as long as there is no duplication of work and the cost is germane to the project.
 - a. Building Exterior
 - Foundations
 - Exterior walls
 - Windows
 - Roof
 - b. Building Interior
 - Stairs
 - Floors, carpeting
 - Ceilings
 - Walls
 - Elevator
 - Plumbing, lavatory, showers, drinking fountains, floor drains, service sinks
 - Fire Protection, sprinklers, detection alarms, extinguishers
 - Heating and Ventilation, burners, boilers, fuel tanks, gas lines, incinerators, thermostats, controls, ventilation system, fixed air conditioning
 - Electrical, service lines, including circuit boxes, emergency power
 - c. Fixed Equipment(e.g. kitchen, gym bleachers, auditorium seating)
2. Architect's and Consultant Fees: Design fees related to the approved project. Reimbursement will apply only to the costs associated with the project that ultimately receives approval by the Board of Education.
3. Furnishings & Equipment & technology
 - Grants for capital construction projects may include not more than \$15.00 per square foot for furnishings and equipment.
 - Equipment is generally defined as a capital item with a usable life of at least two years and which is not consumed through use. A supply item on, the other hand, is generally defined as something which is consumed through use and which has a life expectancy of less than two years, and is, therefore, not eligible for project funding.
 - Every item of equipment purchased by an applicant and submitted for inclusion in the final approved cost is analyzed to determine its nature, (equipment or supply item), and its

appropriateness to the project. (e.g. grade range, relationship). For example, a tractor or vehicle registered as a motor vehicle for use on a public way is considered to be disqualified from the approved cost of a project because it is clearly not to be used for a specific approved project. The fact of registration is prima-facie evidence of its use beyond the confines of the school plant and probably for other purposes.

- New, original, non-expendable furnishings and equipment required to make a new school operational.
 - Library equipment and furnishings, e.g. new library books and related software
 - Athletic and recreational equipment and furnishings, e.g. basketball backstops, home plate, immovable internal bleachers.
 - Maintenance equipment, e.g. wet and dry vacs
 - Medical equipment and furnishings, e.g. sheets, blankets, beds
 - Instrumental, Theater, Stage & Auditorium equipment and furnishings (e.g. podiums, microphones, instruments)
 - Audio-Visual equipment (e.g. projectors, screens)
 - Food Service equipment and furnishings (e.g. stoves, microwaves, refrigerators)
 - Laboratory equipment and furnishings (e.g. microscopes)
 - School (not district or municipal) office equipment and furnishings (e.g. desks, chairs, computers)
 - Classroom equipment and furnishings (e.g. desks, chairs, computers)

4. Site Development & Preparation

- All site preparation and development costs must be related to the school construction project and must be on land that is under the control of the school committee and must not be related to surveys, appraisals or any other costs on rejected lots
- Costs associated with demolishing and removal of an existing school building on the site
- Removing of ledge or unsuitable soil or materials
- Clearing of land or trees
- Creation of playfields, parking and bus turnarounds, student drop-off, athletic fields.
- Specific project costs related to acquisition of land and building for conversion as a schoolhouse.

5. Fees & Insurance

- Costs and legal fees to enforce rights on any contract for the construction of an approved school project, depending on the settlement
- Building risk insurance and team Insurance provided that adequate documentation is submitted to show there were no duplicate payments.
- Costs related to the issuance of notes and bonds.

6. Interest

- The entire interest paid or payable on any bonds or notes issued to finance the *approved project cost* as well as any premiums, fees or charges for credit or liquidity enhancement facilities or services issued or rendered to the applicant.
- Bond Anticipation Notes (BANS) based on Chapter 44, Section 17 and Chapter 70B, Section 13.
 - BANS when issued prior to 1997, a maximum of 2 years. BANS issued prior to the first bond issue or (a) the date of issue of such serial bonds, notes or certificates or (b) the end of the fiscal year in which the board of education approves the project for a school construction

grant, whichever date is earlier.

- BANS issued from 1997 have a maximum of 5 years. BANS issued prior to the first bond issue or (a) the date of issue of such serial bonds, notes or certificates or (b) the end of the fiscal year in which the board of education approves the project for a school construction grant, whichever date is earlier.
- Long Term Bonds: The entire Bond interest will be subject to a grant provided the principal payment is paid in equal payments for the life of the bond (maximum 20 years). If the principle is paid in unequal parts, School Building Assistance will recompute the debt schedule as though the principal payments were paid in equal amounts.
- School Building Assistance must be notified of any decrease in the amount of interest payable on the refunding

7. Other Costs

- Rental/leasing of modular classrooms to provide swing space during a capital project, effective 7/1/00.
- Moving equipment out of the building to be renovated
- Moving equipment (new or old) back into the school after construction
- Audit software package to comply with the SBA audit requirements

→ **Non Reimbursable:** In the event that an eligible applicant undertakes construction before approval is obtained, the applicant shall remain subject to the board's approval process as if such construction were not undertaken. Costs incurred prior to approval are subject to review and may not be included in the approvable costs. The following items are examples of items that *are not* subject to state reimbursement.

- a. Expendable items normally included in a school budget, such as textbooks, paperbacks, classroom supplies, custodial supplies, administrative expenses, bases, balls, bats, racquets, athletic uniforms (all other clothing: goggles, helmets, gloves, aprons, towels), custodial supplies (mops, brooms, brushes, pails, and wringer buckets) or vocational supplies (band saw blades)
- b. District or Municipal Offices - construction, furnishing or repair.
- c. Land purchase or land taking fees, except as allowed through an acquisition project
- d. Swimming pools and skating rinks, outside stadium or field bleachers
- e. Maintenance or service contracts, warranties, permits, processing or catalogue fees
- f. Memberships or subscriptions
- g. Maintenance or repair costs relating to equipment, grounds and buildings.
- h. Costs related to a rejected site
- i. Demolition of a building or structure on the chosen site (other than an existing school building)
- j. Change Orders exceeding the original or subsequent SBA approval
- k. Costs unrelated to the approved project
- l. Storage costs
- m. Administrative support costs, e.g. clerical, stationery, postage, beepers, cell phones
- n. Utility costs
- o. Site costs not on property under the control of the school committee, e.g. sidewalks, public ways, roadways or parks
- p. Unsupported or unidentified costs or partial invoices
- q. Duplications
- r. Items purchased or cost of services rendered after the allowable time period
- s. Clerical, maintenance, security cost unrelated to the construction
- t. Costs incurred for building ineligible spaces (superintendent's office, swimming pool, etc)
- u. Costs incurred over the maximum allowable cost for the project.
- v. Land surveys, unless an acquisition of land
- w. Local variances; fire department, building inspection fees
- x. Bond Credit Rating Service

MAJOR REPAIR PROJECTS

(See definition at http://finance1.doe.mass.edu/sbuilding/admin_adv02.html)

General

The school facility in which a major reconstruction (repair) project is proposed must be necessary to meet the school district's overall facility needs, and must have an anticipated term of use as a public school building of the district of *at least seven years* after completion of the repair project.

In general the audit procedures, eligibility criteria and requirements included above apply as well to Major Repair Projects.

Reimbursable Costs

Those costs which are general approvable are:

1. General Contract: The cost of the general contract and construction supervision, including the project or construction manager. The cost of Sub Contractor services may be included as long as there is no duplication of work and the cost is germane to the project.
2. Architect's fees: Design fees related to the approved project. Reimbursement will apply only to the costs associated with the project that ultimately receives approval by the Board of Education.
3. Fees & Insurance
 - Costs and legal fees to enforce rights on any contract for the construction of an approved school project, depending on the settlement; legal fees relative to bond or ban issuance.
 - Building risk insurance
 - Team Insurance: Adequate documentation must be provided to show there were no duplicate payments made
4. Interest
 - The entire interest paid or payable on any bonds or notes issued to finance the *approved project cost* as well as any premiums, fees or charges for credit or liquidity enhancement facilities or services issued or rendered to the applicant.
 - Bond Anticipation Notes (BANS) based on Chapter 44, Section 17 and Chapter 70B, Section 13. (see Interest section above)
 - Bonds: The entire Bond interest will be subject to a grant provided the principal payment is paid in equal payments for the life of the bond (maximum 20 years). School Building Assistance must be notified of any decrease in the amount of interest payable on the refunding

EMERGENCY RECONSTRUCTION PROJECTS

Subject to appropriation, the Board may provide emergency school building assistance grants to assist in the repairing or reconstructing school buildings which are damaged as a result of a fire, flood, earthquake, hurricane, blizzard, or other unavoidable destructive occurrence. The audit procedures noted above will apply to these

projects based on the nature and extent of the damage.

ACQUISITION COSTS

A project may be accepted for the acquisition of an existing structure and the land upon which it stands together with such other lands as may be deemed necessary for the remodeling of such structure for use as a public schoolhouse. The value of a facility to be acquired shall be determined by the Board on the basis of the reports of at least two fee appraisers registered with the Attorney General and retained by the applicant. The final approved cost of combined acquisition, renovation and conversion work shall not exceed the equivalent costs in new construction.

The audit procedures noted for capital school construction shall apply to these projects with the exception that land acquisition costs will be included as noted above.

REGIONAL BUY-IN COSTS

Any city or town newly admitted to an existing regional school district may be reimbursed for part of the buy-in amount that the city or town is required to pay for admission to the regional school district.

The Board will determine the amount of the grant based on information and documentation concerning the costs of constructing, equipping and financing the building(s) which is the subject of the buy-in, including any additions and renovations to the original buildings(s), state funding of those costs, student enrollment in the building(s), and the reimbursement percentage applicable to the new member town.

Buy-in costs are subject to audit.

Payment of Costs

1. Grants may be reimbursed up to a maximum of 100% of the total construction costs with income from other documented sources as long as the outside receipts plus the SBA grant does not exceed the total approval cost. SBA grants are reduced by any excess over 100% of the cost, excluding bond interest.
2. Costs may be incurred by the city, town or district and claimed for reimbursement only under the following conditions:
 - School Committee vote to expend funds for specific item from budget
 - Regional school Committee vote to expend funds from excess & deficiency funds
 - Overtime vote by municipal or district official to pay for eligible services (e.g. moving expenses) by employees. These costs must be also supported with time sheets.
 - Approval of acceptance of donation or grant, detailing the specific purpose and amount
3. Certain funds **may not be** used to fund the local share of a building project;
 - Tuition income generated through incoming school choice students.
 - Funds generated through restricted revolving fund revenues or grants.
4. Local costs for an approved school construction project may **not be** reported on the End of Year Pupil and Financial Report as operating costs and may not be counted toward the Net School Spending Requirement of the Educational Reform Law.

Audit Appeal Process

Department policy for reconsideration of audit results provides ten working days for the grant recipient to notify the Department of Education in writing of the intent to appeal. All appeals must be filed within an additional twenty working days along with new written documentation to School Building Assistance. If no request for appeal is received within the specified time, the audit will be considered closed and the revised payment schedule implemented.

Audit Forms: (Attached)

1. School Building Assistance Audit Checklist: [[WORD](#)] | [[PDF](#)]
2. Form F - Final Project Cost: [[WORD](#)] | [[PDF](#)]
3. Scheduled of Bills Paid: [[WORD](#)] | [[PDF](#)]