



Commonwealth of Massachusetts
Office of the State Auditor
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Making government work better

Official Audit Report-Issued December 28, 2012

Duxbury Public School District's Use of Certain American Recovery and Reinvestment Act Funds

For the period July 1, 2009 through September 30, 2011



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Duxbury Public School District (DPSD) was established pursuant to the provisions of Chapter 71 of the Massachusetts General Laws. DPSD is considered a department of the Town of Duxbury and is governed by the local school committee, which comprises five elected members. The committee, under the guidance of the Massachusetts Board of Education, is responsible for the general management and control of DPSD's educational and financial affairs. The Superintendent of Schools is the Chief Executive Officer of DPSD under the direction of the committee. During our audit period, in addition to other grant awards, DPSD received American Recovery and Reinvestment Act of 2009 (ARRA) grants from the Massachusetts Department of Elementary and Secondary Education (DESE) and the Massachusetts Department of Early Education and Care under the Education Jobs program and Part B of the Individuals with Disabilities Education Act (IDEA-Part B) program.

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of certain activities of DPSD for the period July 1, 2009 through September 30, 2011. The objectives of our audit were to determine whether ARRA funds awarded to DPSD for the Education Jobs and IDEA-Part B programs were used for their intended purposes and in compliance with program requirements, and to evaluate whether DPSD was complying with ARRA accounting and reporting requirements.

Highlight of Audit Findings

- DPSD had not designed a system of internal control that would provide reasonable assurance of compliance with applicable laws and regulations affecting its Education Jobs and IDEA-Part B awards funded by ARRA or ensure that federal stimulus funds received for these two ARRA programs were safeguarded from possible loss, theft, or misuse.
- DPSD's internal control procedures did not adequately minimize the time that elapses between the transfer of ARRA funds for its Education Jobs program and the disbursement of such funds by DPSD as required by federal regulations and guidance issued by the U.S. Department of Education.

Recommendations of the State Auditor

- DPSD should develop ARRA-specific internal controls and risk assessments to address the objectives and risks that affect compliance with ARRA regulations, performance and reporting requirements, fraud detection and prevention, and safeguarding of assets.

- DPSD should develop procedures to ensure that it returns to the grantee (in this case DESE) any federal funds in excess of its immediate needs.
- In cases where it determines that originally-budgeted program funds will not be spent, DPSD should amend the line-item budget to minimize the possibility of DESE's grant-management system automatically generating advances that would put DPSD in an excess cash position.

OVERVIEW OF AUDITED AGENCY

The Duxbury Public School District (DPSD) was established pursuant to the provisions of Chapter 71 of the Massachusetts General Laws. DPSD is considered a department of the Town of Duxbury and is governed by the local school committee, which comprises five elected members. The committee, under the guidance of the Massachusetts Board of Education, is responsible for the general management and control of DPSD's educational and financial affairs. The Superintendent of Schools is the Chief Executive Officer of DPSD and is responsible, along with other administrative staff, for the day-to-day management of DPSD under the direction of the committee.

DPSD consists of four schools hosting pre-kindergarten through twelfth grades: the high school, the middle school, and two elementary schools. There are approximately 3,208 students enrolled, and DPSD employs a team of approximately 366 administrators, teachers, and staff. During our audit period, in addition to other grant awards, DPSD received from the Massachusetts Department of Elementary and Secondary Education (DESE) an American Recovery and Reinvestment Act of 2009 (ARRA) grant under the Education Jobs and the Part B of the Individuals with Disabilities Education Act (IDEA-Part B) programs. The Commonwealth's Department of Early Education and Care (EEC) also provided ARRA funds for the IDEA-Part B program. The Education Jobs program is a one-time appropriation, which may be used through September 30, 2012, that the U. S. Department of Education (USDOE) awarded to save or create education jobs that provide educational and related services for early childhood, elementary, and secondary education. ARRA funding for the IDEA-Part B program, provided by USDOE, gives additional financial support to DPSD's existing IDEA-Part B program's mission of providing students with disabilities, including children ages three through five, access to a free and appropriate education that meets their particular needs and prepares them for further education, employment, and independent living.

In order to comply with ARRA requirements and provide transparency on stimulus projects for which Commonwealth agencies distribute funds, the Massachusetts Recovery and Reinvestment Office (MRRO) gathers summary information and reports on what stimulus projects are funded and how stimulus funds are being spent. MRRO reported that the Town of Duxbury was awarded \$1,140,651 to fund these ARRA programs operated by DPSD. MRRO also reported award expenditures totaling \$856,802 as of September 30, 2011. The following table, which includes data

on DPSD's allocations received based on its approved budgets, summarizes award and expenditures¹ reported by MRRO:

**Duxbury Public School District
Summary of ARRA Awards, Allocations, and Expenditures**

As of September 30, 2011

Program	Award	Allocation	Expenditures
Education Jobs	\$ 327,711	\$ 64,539	\$ 43,862
IDEA-Part B (EEC)	31,550	31,550	31,550
IDEA-Part B (DESE)	<u>781,390</u>	<u>781,390</u>	<u>781,390</u>
Total	<u>\$1,140,651</u>	<u>\$877,479</u>	<u>\$856,802</u>

Education Jobs funds were budgeted to pay for support staff salaries. IDEA-Part B funds were budgeted to pay for professional and support staff salaries, training and travel, instructional materials and supplies, space rental and student transportation. Budgeted amounts were for allowable expenditures under the terms of the ARRA program awards.

A requirement of ARRA funding is the submission of quarterly reports that help identify the impact of ARRA funds received and expended, including statistics on the creation and/or retention of personnel or full-time equivalent (FTE) positions. In addition to reporting the uses of program funds, information reported to MRRO indicated that 4.5 FTE positions were retained as of September 30, 2011.

¹ Expenditures reported by MRRO could include funds advanced by the state to DPSD through the budgeting process.

AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Duxbury Public School District (DPSD) for the period July 1, 2009 through September 30, 2011. The objectives of our audit were to determine whether American Recovery and Reinvestment Act of 2009 (ARRA) funds awarded to DPSD for the Education Jobs and Part B of the Individuals with Disabilities Education Act programs were used for their intended purposes and in compliance with program requirements, and to evaluate whether DPSD was complying with ARRA accounting and reporting requirements.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To achieve our audit objectives, we reviewed the following:

- U.S. Department of Education, Massachusetts Department of Elementary and Secondary Education, Massachusetts Department of Early Education and Care, Office of the State Comptroller, and Massachusetts Recovery and Reinvestment Office rules, regulations, and directives to determine compliance with any ARRA-specific guidelines.
- Internal control plans to determine whether DPSD has controls in place to ensure that federal stimulus funds are adequately safeguarded against loss, theft, and misuse.
- Budgets prepared by DPSD to ensure that ARRA funds were expended for their intended purposes.
- Expenditures of ARRA funds to determine whether they were reasonable, allowable, and allocable under the terms of the program awards. A nonstatistical sampling approach based on the auditors' professional judgment was used to test ARRA expenditure compliance.
- Recordkeeping procedures to determine whether ARRA expenditures were properly authorized, supported by adequate documentation, and accounted for separately within the accounting records.
- The adequacy and timeliness of DPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.

- Cash management practices to ensure that DPSD limited the time between its request for and use of federal stimulus funds.

We obtained grant award, allocation and expenditure information from systems maintained by the federal government, the Commonwealth, the Town of Duxbury, and the local school district. We compared this information with other source documents and interviewed knowledgeable DPSD officials about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Based on our audit, we have concluded that, except as reported in the Audit Findings section of this report, for the period of July 1, 2009 to September 30, 2011, DPSD maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

At the conclusion of our audit, a draft copy of our report was provided to DPSD officials for their review and comments. DPSD officials did not provide the Office of the State Auditor with written comments. However, all verbal comments provided by DPSD relative to the issues contained in this report were considered in the drafting of the final report.

AUDIT FINDINGS

1. IMPROVEMENTS NEEDED IN DOCUMENTATION OF ARRA-SPECIFIC INTERNAL CONTROLS

Although the Duxbury Public School District (DPSD) followed its long-standing policies and procedures for the management of its grant programs and awards funded by Department of Elementary and Secondary Education (DESE), it had not designed a system of internal controls that would (a) provide reasonable assurance of compliance with applicable laws, rules, and regulations affecting its Education Jobs program and Part B of the Individuals with Disabilities Education Act program awards funded by the American Recovery and Reinvestment Act of 2009 (ARRA) or (b) ensure that federal stimulus funds received for these two ARRA programs were safeguarded from loss, theft, and misuse. ARRA guidance issued by the U.S. Office of Management and Budget, the U.S. Department of Education (USDOE), and the Office of the State Comptroller (OSC) emphasize the importance of a proper system of internal controls for ensuring that ARRA funds are adequately administered and used in ways that comply with specific program requirements.

Agencies charged with administering ARRA programs have a responsibility to establish an adequate system of internal controls that will provide reasonable assurance of compliance with applicable laws, rules, and regulations and will ensure that funds are safeguarded from loss, theft, and misuse. Accordingly, USDOE, in its effort to assist and provide internal control guidance to agencies, conducted a series of webinars that stressed the need for effective oversight, management, and accountability of ARRA funds. Two of these webinars focused on the importance of ARRA internal controls and the need for organizations to make adjustments to their management approach and requirements so that they can spend ARRA funds quickly while adequately safeguarding assets and detecting and preventing fraud. In recognition of this need, the OSC's Control and Compliance Best Practices Working Group issued ARRA Internal Control Guidance, which states, in part:

Each department has a system of internal controls consisting of an Internal Control Plan that summarizes objectives, risks, controls, and a detailed set of control activities that mitigate risk. Each component of the internal control system must be updated to include coverage of ARRA funds.

Two of the key components of internal controls that auditors will be examining closely are the internal control environment and risk assessment.

In the absence of specific ARRA directives, memorandums, and guidance instructing local educational agencies such as DPSD of the need for ARRA-specific internal controls, prudent business practices warrant that all governmental agencies (federal, state, and municipal) employ reasonable internal controls to ensure compliance and safeguard funds from loss, theft, and misuse. However, our audit found that, although DPSD had developed an internal control document in calendar year 2008, it had not been updated to include a system of internal controls designed specifically for ARRA funds that would (a) provide reasonable assurance of compliance with applicable laws, rules, and regulations or (b) ensure that federal stimulus funds were safeguarded from loss, theft, and misuse.

We brought this matter to the attention of DPSD personnel, who indicated that they were unaware of the need to develop any ARRA-specific internal controls until it was brought to their attention during our audit field work. However, a DPSD official indicated that the school district would work on performing a risk assessment and documenting its internal controls related to ARRA programs.

Recommendation

DPSD should develop internal controls and risk assessments specific to ARRA as a way to address the objectives and risks of handling ARRA funds. Particularly, the internal control documents should focus on the objectives and risks that affect compliance with ARRA regulations, performance and reporting requirements, fraud detection and prevention, and safeguarding of assets.

2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS

Although DPSD adequately reported and accounted for Education Jobs program funds, the controls it had established in developing its Education Jobs program budget were inadequate to minimize the time that elapses between the transfer of ARRA funds for this program and DPSD's disbursement of those funds. As a result, DPSD received some ARRA funding significantly in advance of its needs, which is contrary to federal regulations.

Our review of ARRA funds advanced to DPSD for its Education Jobs program noted that DPSD did not spend all the funds advanced, causing it to be in an excess cash position. Specifically, DPSD received an advance of \$43,862 from DESE on December 2, 2010, all of

which remained unspent as of September 30, 2011, or 302 days later, after which it was returned to DESE. Even though this amount was automatically advanced by DESE's grant management system (which determines the initial advance amount by dividing the total grant allocation by the number of months in the grant duration), DPSD is obligated to monitor expenditures closely to minimize the time between the receipt and disbursement of funds advanced.

Provisions of Educational Department General Administrative Regulations require cash advances to be limited to the minimum needed for the actual, immediate cash requirements to carry out the program's purpose. These regulations are published in the 34 Code of Federal Regulations (CFR) 80.21, which addresses the "immediate cash needs" rule, as follows:

Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations. . . . Grantees and subgrantees shall be paid in advance provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement by grantee or subgrantee.

As a subgrantee, DPSD is required to follow this rule. Since DPSD received program funds significantly in advance of its needs, the process it used to budget for its Education Jobs program did not fully comply with the provisions of 34 CFR 80.21. A DPSD official indicated that the district's excess cash position was not the result of DPSD's requesting an advance of program funds. Rather, this official pointed out that it occurred because DESE's grant-management system automatically generated an advance amount equal to a percentage of DPSD's line-item budget once the budget was approved by DESE. However, DPSD is obligated to ensure that it has controls over its ARRA budgeting process that will allow it to fully comply with 34 CFR 80.21.

Recommendation

Regardless of whether it specifically requests funds or receives them automatically from DESE's grant-management system, DPSD needs to ensure that it is not in an excess cash position. One way to accomplish this is to develop budgets that realistically anticipate program spending. USDOE has issued guidance relative to ARRA funds that states that grantees determined to have drawn down excessive cash will be required to return the excess funds. In its guidance, USDOE defines excess cash balances as "funds maintained at the recipient/subrecipients's level in excess of immediate (usually 3 days) needs." Consequently, in the future, if DPSD finds itself

to have more federal funds on hand than are immediately needed, it should return the excess funds to the grantee (in this case DESE). Moreover, if DPSD determines that it is not going to spend the originally budgeted program funds, it should amend the line-item budget to prevent DESE's grant-management system from generating advances that would put DPSD in an excess cash position.