



Commonwealth of Massachusetts  
Office of the State Auditor  
Suzanne M. Bump

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## Holbrook Public School District's Use of Certain American Recovery and Reinvestment Act Funds For the period August 10, 2010 through June 30, 2011



**TABLE OF CONTENTS**

**INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS ..... 1**

**OVERVIEW OF AUDITED AGENCY ..... 3**

**AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY ..... 5**

**AUDIT FINDINGS ..... 7**

**1. IMPROVEMENTS NEEDED IN DOCUMENTATION OF ARRA-SPECIFIC INTERNAL CONTROLS..... 7**

**2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS ..... 8**

## INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Holbrook Public School District (HPSD) was established pursuant to the provisions of Chapter 71 of the Massachusetts General Laws. HPSD is considered a department of the Town of Holbrook and is governed by the local school committee, which is composed of five elected members. The school committee, under the guidance of the Massachusetts Board of Education, is responsible for the general management and control of HPSD's financial and educational affairs. The Superintendent of Schools is the Chief Executive Officer of HPSD and is responsible, along with other administrative staff, for the day-to-day management of HPSD under the direction of the committee. During our audit period, in addition to other grant awards, HPSD received American Recovery and Reinvestment Act of 2009 (ARRA) grants from the Massachusetts Department of Elementary and Secondary Education (DESE) under the Race to the Top (RTT) and Education Jobs programs.

In accordance with Chapter 11, Section 12, of the General Laws, we have conducted an audit of certain activities of HPSD for the period August 10, 2010<sup>1</sup> through June 30, 2011. The objectives of our audit were to determine whether ARRA funds awarded to HPSD for its RTT and Education Jobs programs were used for their intended purposes and in compliance with program requirements, and to evaluate whether HPSD was complying with ARRA accounting and reporting requirements.

### *Highlight of Audit Findings*

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

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<sup>1</sup> The audit period start date was determined to be the beginning project date established by DESE for HPSD's Education Jobs program.

***Recommendations of the State Auditor***

- HPSD 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.
- HPSD should 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, HPSD should amend the line-item budget to minimize the possibility of DESE's grants management system automatically generating advances that would put HPSD in an excess cash position.

## OVERVIEW OF AUDITED AGENCY

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

HPSD consists of three schools hosting pre-kindergarten through twelfth grades: the junior/senior high school, the middle school, and the elementary school. There are 1,187 students enrolled, and HPSD employs a team of 134 administrators, teachers, and staff. As a learning resource for elementary and secondary education, HPSD's primary mission is to "facilitate the development of students into independent thinkers and lifelong learners who are continually increasing their achievements, self-esteem, and self-confidence in order to become socially responsible."

During our audit period, in addition to other grant awards, HPSD received American Recovery and Reinvestment Act of 2009 (ARRA) grants from the Massachusetts Department of Elementary and Secondary Education under the Race to the Top (RTT) and Education Jobs programs. RTT is a four-year U.S. Department of Education (USDOE) grant provided to certain states and used by local educational agencies, such as HPSD, committed to implementing the following set of education reforms: improving teacher and principal effectiveness based on performance; ensuring effective teachers and leaders in every school and classroom; using data to inform instruction; improving college and career readiness; developing and implementing a statewide teaching and learning system; and turning around the lowest-achieving schools. The Education Jobs program is a one-time appropriation, which may be used through September 30, 2012, that USDOE awarded to save or create education jobs that provide educational and related services for early childhood, elementary, and secondary education.

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

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how stimulus funds are being spent. MRRO reported that the Town of Holbrook was awarded \$393,997 to fund these ARRA programs operated by HPSD. MRRO also reported award expenditures totaling \$274,858 as of June 30, 2011. The following table, which includes data on HPSD's first-year allocation based on its approved budget, summarizes awards and expenditures<sup>2</sup> reported by MRRO.

Holbrook Public School District			
Summary of ARRA Awards, Allocations, and Expenditures			
As of June 30, 2011			
Program	Award	Year 1 Allocation	Expenditures
Race to the Top	\$ 105,829	\$ 9,750	\$ 5,725
Education Jobs	<u>288,168</u>	<u>288,168</u>	<u>269,133</u>
Total	<u>\$393,997</u>	<u>\$297,918</u>	<u>\$274,858</u>

RTT funds were budgeted to pay for principals' attendance at seminars addressing the RTT educational framework. Education Jobs funds were budgeted to pay the salaries of instructors who might have otherwise been terminated. Budgeted amounts were for allowable expenses 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 the 5.03 FTE positions had been created or retained using Education Jobs funds as of June 30, 2011.

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<sup>2</sup> Expenditures reported by MRRO could include funds advanced by the state to HPSD 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 Holbrook Public School District (HPSD) for the period August 10, 2010 through June 30, 2011. The objectives of our audit were to determine whether American Recovery and Reinvestment Act of 2009 (ARRA) funds awarded to HPSD for Race to the Top and Education Jobs programs were used for their intended purposes and in compliance with program requirements, and to evaluate whether HPSD 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, and Massachusetts Recovery and Reinvestment Office rules, regulations, and directives to determine compliance with any ARRA-specific guidelines.
- Internal control plans to determine whether HPSD has controls in place to ensure that federal stimulus funds are safeguarded against loss, theft, and misuse.
- Budgets prepared by HPSD 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 HPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.
- Cash management practices to ensure that HPSD 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 Holbrook, and the local school district. We compared this information with other source documents and interviewed knowledgeable HPSD 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 August 10, 2010 through June 30, 2011, HPSD maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.



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## AUDIT FINDINGS

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

Although the Holbrook Public School District (HPSD) followed its long-standing policies and procedures for the management of its grants 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 Race to the Top (RTT) and Education Jobs 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 HPSD 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 HPSD had not developed an internal control plan addressing controls related to its ARRA activities. Without ARRA-specific internal controls that identify risks and ways to mitigate them, HPSD cannot ensure compliance with applicable laws, rules, and regulations or that ARRA funds are adequately protected from loss, theft, or misuse.

We brought this matter to the attention of HPSD officials, who indicated that they were unaware of the need for ARRA-specific internal controls and relied on HPSD's long-standing policies and procedures for grant management.

***Recommendation***

HPSD 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 assets.

***Auditee's Response***

*Holbrook Public Schools is updating its internal control plan to include ARRA funds.*

**2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS**

Although HPSD adequately reported and accounted for Education Jobs and RTT program funds, the controls it had established in developing its Education Jobs and RTT program budgets were inadequate to minimize the time that elapses between the transfer of ARRA funds for these programs and HPSD's disbursement of such funds. As a result, HPSD received some ARRA funding significantly in advance of its needs, which is contrary to federal guidelines.

Our review of ARRA funds advanced to HPSD from DESE for its Education Jobs and RTT programs noted that HPSD did not always spend the funds advanced, causing it to be in an excess cash position. Specifically, during our audit period HPSD received advances totaling

\$274,858, of which \$20,998 remained unspent for as many as 92 days. Even though some of these advanced amounts were automatically determined 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), HPSD is obligated to monitor expenditures closely to minimize the time that elapses between the receipt and disbursement of funds advanced. It is also responsible for developing a program budget that realistically anticipates expenses for the program period.

Provisions of the Education Department General Administrative Regulations (EDGAR) require cash advances to be limited to the minimum needed to meet the actual, immediate cash requirements to carry out the program's purpose. HPSD is considered a sub-grantee and, according to EDGAR, must follow cash advance requirements that limit the amount and timing of funds advanced to that which is immediately needed. These regulations are published in 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 the funds and their disbursement by the grantee or subgrantee.*

Since HPSD received Education Jobs and RTT programs funds significantly in advance of its needs, the process it used to budget for its programs did not fully comply with the provisions of 34 CFR 80.21. HPSD officials indicated that the district's excess cash position was not solely the result of HPSD's physically requesting an advance of program funds and that it also resulted from DESE's grant-management system's automatic generation of an advance amount equal to a percentage of HPSD's line-item budget once the budget was approved by DESE. However, HPSD is obligated to ensure that controls exist over its ARRA budgeting process that will allow it to fully comply with 34 CFR 80.21.

### ***Recommendation***

Regardless of whether it physically requests funds or is in possession of funds automatically advanced by DESE's grant-management system, HPSD needs to recognize its responsibility to ensure that it is not in an excess cash position. One way to ensure compliance is to develop

budgets that realistically anticipate program spending. In this regard, 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/subrecipient’s level in excess of immediate (usually 3 days) needs.” Consequently, in the future, if HPSD finds itself to have more federal funds on hand than are immediately needed, it should return these excess funds to the grantee (in this case DESE). Moreover, if HPSD determines that it is not going to spend the originally budgeted program funds, it should amend the line-item budget to preclude DESE’s grant-management system from generating advances that would put HPSD in an excess cash position.

***Auditee’s Response***

*Holbrook Public Schools will monitor grant allocations and communicate with DESE Grant Management personnel to ensure that it does not have excess funds on hand.*