



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

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



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Monson Public School District (MPSD) was established pursuant to the provisions of Chapter 71 of the Massachusetts General Laws. MPSD is considered a department of the Town of Monson 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 MPSD's financial and educational affairs. The Superintendent of Schools is the Chief Executive Officer of MPSD and is responsible, along with other administrative staff, for the day-to-day management of MPSD under the direction of the committee. During our audit period, in addition to other grant awards, MPSD 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 MPSD for the period August 10, 2010¹ through June 30, 2011. The objectives of our audit were to determine whether ARRA funds awarded to MPSD for its RTT and Education Jobs programs were used for their intended purposes and in compliance with program requirements, and to evaluate whether MPSD was complying with ARRA accounting and reporting requirements.

Highlight of Audit Findings

- MPSD 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.
- MPSD's internal control procedures did not adequately minimize the time that elapses between the transfer of ARRA funds for its RTT program and the disbursement of such funds by MPSD as required by federal regulations and guidance issued by the U.S. Department of Education (USDOE). As a result, MPSD received some ARRA funding significantly in advance of its needs.
- MPSD spent \$1,616 from its Education Jobs program award on reimbursements to teachers and staff who took courses and trainings prior to the ARRA grant award start date which is contrary to regulations.

¹ The audit period start date was determined to be the beginning project date established by DESE for MPSD's Education Jobs program.

Recommendations of the State Auditor

- MPSD 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 assets.
- MPSD should ensure that it returns to the grantee (in this case DESE) any federal funds in excess of its immediate cash needs
- In cases where it determines that originally budgeted program funds will not be spent, MPSD should amend the line item budget to minimize the possibility of DESE's grants management system automatically generating advances that would put MPSD in an excess cash position.
- MPSD should review its ARRA Education Jobs funds payments and make any additional adjustments for reimbursements and expenditures it made that occurred outside the audit period.
- MPSD should better review documentation supporting future payments from the Education Jobs program.

Agency Progress

- MPSD returned \$1,616 to its Education Jobs program, and directed that future payments apply solely to teacher/instructor salaries.
- MPSD has included ARRA-specific guidelines in its ongoing policy and procedure development.

OVERVIEW OF AUDITED AGENCY

The Monson Public School District (MPSD) was established pursuant to the provisions of Chapter 71 of the Massachusetts General Laws. MPSD is considered a department of the Town of Monson 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 MPSD's financial and educational affairs. The Superintendent of Schools is the Chief Executive Officer of MPSD and is responsible, along with other administrative staff, for the day-to-day management of MPSD under the direction of the committee.

MPSD consists of three schools hosting pre-kindergarten through twelfth grades: the high school, the middle school, and the elementary school. MPSD also operates an alternative education program for seventh through twelfth grades. There are approximately 1,383 students enrolled, and MPSD employs a team of approximately 173 administrators, teachers, and staff. As a learning resource for elementary and secondary education, MPSD's primary mission is to, "maximize learning by adhering to high standards of academic achievement, preparing all students to become responsible, productive global citizens."

During our audit period, in addition to other grant awards, MPSD 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. RTT is a four-year U.S. Department of Education (USDOE) grant provided to certain states and used by local educational agencies, such as MPSD, 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 how stimulus funds are being spent. MRRO reported that the Town of Monson was awarded \$531,255 to fund these ARRA programs operated by MPSD. MRRO also reported award expenditures totaling \$237,375 as of June 30, 2011. The following table, which includes data on MPSD's first-year allocation based on its approved budget, summarizes awards and expenditures² reported by MRRO.

Monson 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	\$86,791	\$ 12,987	\$ 5,014
Education Jobs	<u>444,464</u>	<u>256,989</u>	<u>232,361</u>
Total	<u>\$531,255</u>	<u>\$269,976</u>	<u>\$237,375</u>

RTT funds were budgeted to pay stipends and travel for instructional and professional staff attendance at RTT workshops. Education Jobs funds were budgeted to pay a portion of instructional and support staff salaries, substitute teacher wages, fringe benefits and tuition reimbursements. 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 jobs. In addition to reporting the uses of program funds, information reported to MRRO indicated that no jobs were created or retained by MPSD as of June 30, 2011.

² Expenditures reported by MRRO could include funds advanced by the state to MPSD 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 Monson Public School District (MPSD) 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 MPSD for Race to the Top (RTT) and Education Jobs programs were used for their intended purposes and in compliance with program requirements, and to evaluate whether MPSD 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 (DESE), and Massachusetts Recovery and Reinvestment Office (MRRO) rules, regulations, and directives to determine compliance with any ARRA-specific guidelines.
- Internal control plans to determine whether MPSD has controls in place to ensure that federal stimulus funds were safeguarded against loss, theft, and misuse.
- Budgets prepared by MPSD 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 non-statistical sampling approach based on the auditors' professional judgment was used to test ARRA expenditure compliance.
- MPSD's 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 MPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.
- Cash management practices to ensure that MPSD 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 Monson and the local school district. We compared this information with other source documents and interviewed knowledgeable MPSD 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, MPSD 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 MPSD officials for their review and comments. MPSD provided written comments specific to Audit Finding No. 3 and verbally commented on the other Audit Findings. All verbal comments provided by MPSD officials 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 Monson Public School District (MPSD) 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 MPSD, 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 MPSD 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, MPSD 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 MPSD officials who indicated that they were not aware of the need for ARRA-specific internal controls and relied on MPSD's long standing policies and procedures for grant management. However, MPSD personnel indicated that the school district would work with the town in performing a risk assessment and documenting its internal controls related to ARRA programs.

Recommendation

MPSD 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.

2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS

MPSD did not have adequate procedures in place to minimize the time that elapses between the transfer of ARRA funds for the RTT and Education Jobs programs and MPSD's disbursement of such funds. As a result, MPSD received some ARRA funding significantly in advance of its needs, which is contrary to federal guidelines.

Our review of ARRA funds advanced to MPSD from DESE for its RTT and Education Jobs programs noted that MPSD did not spend \$64,257 of the advanced funds for as many as 86 days, causing it to be in an excess cash position. Even though \$33,056 of this amount was automatically determined by DESE's grants management system (which determines the initial advance amount by dividing the total grant allocation by the number of months in the grant

duration), MPSD 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.

In this regard, 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. MPSD is considered a subgrantee, 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 MPSD received RTT and Education Jobs program funds significantly in advance of its needs, the process it used to budget for its RTT and Education Jobs programs did not fully comply with the provisions of 34 CFR 80.21. An MPSD official indicated that the excess cash position was not the result of MPSD's physically requesting an advance of program funds. Rather, this official pointed out that it resulted from DESE's grants management system automatically generating an advance amount equal to a percentage of MPSD's line item budget once the budget was approved by DESE. However, MPSD 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 grants management system, MPSD needs to recognize its responsibility 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.

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, the 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 MPSD 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 MPSD determines that it is not going to spend the originally budgeted program funds, it should amend the line item budget to preclude DESE’s grants management system from generating advances that would put MPSD in an excess cash position.

3. UNALLOWABLE EXPENDITURES OF \$1,616 PAID FROM THE EDUCATION JOBS PROGRAM

Provisions of the Education Jobs guidance issued by DESE require that ARRA funds only be spent during the program award period and for allowable purposes. On August 25, 2010, DESE notified school districts of the additional federal recovery funding allocated to Massachusetts that included the Education Jobs program. This correspondence went on to explain the purpose and spending parameters for the Education Jobs program, as follows:

The primary purpose of the Education Jobs program is to allow local school districts to retain existing employees, to recall or rehire former employees, and to hire new employees for the 2010-11 school year....Education Jobs grants may be used for eligible expenses back to August 10, 2010.

Our review of MPSD’s Education Jobs program expenditures identified that MPSD erroneously reimbursed some of its staff for classes and workshops they attended before the grant period began. Of the 13 reimbursements tested totaling \$5,386, supporting documentation indicated six instances, valued at \$1,616, in which MPSD reimbursed teachers and other staff members for courses and trainings that occurred as much as three months prior to its Education Jobs grant start date.

Based on our discussion with MPSD officials, this billing error was due to MPSD staff not being familiar with all of the Education Jobs grant requirements. MPSD’s officials agreed that the expenses were improperly charged, and the Monson Town Accountant made the necessary accounting adjustments to address this problem.

Recommendation

In the future, MPSD should take the measures necessary to ensure that all of its ARRA funds are expended in accordance with the terms and conditions of ARRA grants.

Auditee's Response

Regarding the "unallowable expenditures" finding of \$1,616, this was identified and corrected during the actual on-site audit. General ledger transfers were made on 6/30/11, (so that the expense and funding were both within the same fiscal year). This oversight occurred in the first year of the grant while the Business Office familiarized itself with the full scope of the ARRA terms and conditions. Monson applied all of the Education Jobs' funding exclusively to salary in FY' 12 to prevent reoccurrence.