



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

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Winchendon 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 9

INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

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

Highlight of Audit Findings

- WPSD 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.
- WPSD'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 WPSD as required by federal regulations and guidance issued by the U.S. Department of Education (USDOE). As a result, WPSD received some ARRA funding significantly in advance of its needs.

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

Recommendations of the State Auditor

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

Agency Progress

- WPSD indicated that it is making every effort to return excess funds to the funding source (in this case, DESE) as soon as practical in order to avoid being in an excess cash position.

OVERVIEW OF AUDITED AGENCY

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

WPSD consists of four schools hosting pre-kindergarten through twelfth grades: the middle/high school, two elementary schools, and the preschool. There are approximately 1,551 students enrolled, and WPSD employs a team of approximately 148 administrators, teachers, and staff. As a learning resource for elementary and secondary education, WPSD's primary mission is "to develop in all children the knowledge, skills, attitudes and values which will enable them to live a productive and self-fulfilling life and engage in responsible citizenship in an ever-changing society."

During our audit period and in addition to other grant awards, WPSD 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 WPSD, 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 Winchendon was awarded \$835,205 to fund these ARRA programs operated by WPSD. MRRO also reported award expenditures totaling \$241,620 as of June 30, 2011. The following table, which includes data on WPSD's first-year allocation based on its approved budget, summarizes awards and expenditures² reported by MRRO.

Winchendon 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	\$166,073	\$ 8,000	\$ 1,620
Education Jobs	<u>669,132</u>	<u>240,000</u>	<u>240,000</u>
Total	<u>\$835,205</u>	<u>\$248,000</u>	<u>\$241,620</u>

RTT funds were budgeted to pay for teacher attendance at RTT workshops and for substitute instructors. Education Jobs funds were budgeted to pay a portion of WPSD's instructional and support staff wages and fringe benefits. 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 .93 FTE positions were either created or retained with the RTT program and 15 FTE positions were retained with the Education Jobs program as of June 30, 2011.

² Expenditures reported by MRRO could include funds advanced by the state to WPSD 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 Winchendon Public School District (WPSD) 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 WPSD 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 WPSD 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 WPSD has controls in place to ensure that federal stimulus funds are safeguarded against loss, theft, and misuse.
- Budgets prepared by WPSD 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.
- WPSD 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 WPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.
- Cash management practices to ensure that WPSD 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 Winchendon, and the local school district. We compared this information with other source documents and interviewed knowledgeable WPSD 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, WPSD maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.

AUDIT FINDINGS

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

Although the Winchendon Public School District (WPSD) 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 WPSD, 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 WPSD 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, WPSD 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 WPSD officials who indicated that they were not aware of the need for ARRA-specific internal controls and relied on WPSD's long-standing policies and procedures for grant management.

Recommendation

WPSD 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

We receive funds from the Department of Elementary and Secondary Education (DESE). The funds go directly to the Town Treasurer who then informs the Town Accountant the funds are available. The Town Accountant has a copy of the budget and expenditure guidelines for all of our grants. When we submit a payroll or expense to be paid from a grant it is reviewed and approved by the Assistant Business Manager, Business Manager, School Committee and then it is sent to the Town Accountant. Once the invoice or payroll is reviewed and approved by the Town Accountant, the Town Treasurer is then authorized to process a payment check. In our processes to pay bills and staff, we have multiple layers of oversight to ensure compliance with state laws and regulations. Our grants have been audited each year and no issues have been found in terms of regulatory compliance, theft or misuse.

Auditor's Reply

We agree with WPSD that it applied its long-standing policies and procedures relative to grants administration to its ARRA programs, and stated so in our report. However, ARRA requires levels of transparency and accountability beyond those applicable to WPSD's existing grant

activities. For example, ARRA requires quick spending of program dollars in a relatively short time frame and detailed, periodic reporting of ARRA program transactions that identifies vendors and sub-vendors and captures the number of jobs retained and created, none of which are addressed in WPSD's existing policies and procedures. Accordingly, we again recommend that WPSD develop an ARRA-specific internal control system to ensure that ARRA awards and expenditures are accounted for and reported in a timely, accurate, and appropriate manner.

2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS

WPSD 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 WPSD's disbursement of such funds. As a result, WPSD received some ARRA funding significantly in advance of its needs, which is contrary to federal guidelines.

Our review of ARRA funds advanced to WPSD from DESE for its RTT and Education Jobs programs noted that of the \$241,620 advanced during the audit period, WPSD did not spend \$106,769 for as many as 182 days, causing it to be in an excess cash position. Even though \$96,733 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), WPSD is obligated to monitor expenditures closely to minimize the time that elapses between the receipt and disbursement of funds advanced. WPSD 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. WPSD is considered a sub-grantee of ARRA funds, which it receives through DESE, the grantee. According to EDGAR, WPSD must follow cash advance requirements that limit the amount and timing of funds advanced to that which is immediately needed. This requirement is 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 sub-grantee, in accordance with Treasury regulations. . . . Grantees and sub-grantees 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 sub-grantee.

Since WPSD 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.

A WPSD official indicated that DESE's grants management system caused the school district to be in an excess cash position; initially by DESE's grants management system automatically generating an advance amount equal to a percentage of WPSD's line-item budget once the budget was approved by DESE, and subsequently by DESE's cash management system when future cash advance requests were approved. However, WPSD 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, WPSD 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, 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 WPSD 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 WPSD 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 WPSD in an excess cash position.

Auditee's Response

In December the DESE sent us \$95,590 as startup funding. We could not spend Edujobs funds until we received them. We started paying paraprofessionals from our Edujobs Grant beginning in January 2011. Each time we requested funding, we used the DESE's funding request portal which asked for current balance, amount of expenses to date and amount requested and each time our funding request was approved. Towards the end of fiscal year

2011 we decided to roll over as much FY 11 Edujobs funding as we could into fiscal 2012 to help balance our budget. This is why we sent \$86,018 back to DESE and reapplied for rollover funds for FY'12. While I understand the State's concern that we were holding excess funds, it was not our intent. As we started planning for FY'12 we made a sincere effort to return funds to DESE as soon as we could.

Auditor's Reply

EDGAR cash management rules apply to ARRA funds regardless of whether the grantee (DESE) issues the sub-grantee (WPSD) startup funding or approves its subsequent funding requests. Although we agree that DESE shares the responsibility for not having a mechanism in place for returning funds before year-end, federal regulations require WPSD to take steps to address the excess funds instead of keeping the idle advance funds on hand. Consequently, we again recommend that WPSD implement our recommendations relative to this matter.