



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

Official Audit Report-Issued December 28, 2012

Woburn 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 Woburn 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 City of Woburn and is governed by the local school committee, which is composed of seven 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, 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.

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

- Although WPSD followed its long-standing policies and procedures for grants administration, it 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 procedures did not adequately provide that all expenditures were supported by sufficient supporting documentation to ensure expenditures are allowable and in accordance with grant expenditure guidelines.

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 of assets.
- WPSD should develop procedures to provide sufficient and adequate supporting documentation for all ARRA expenditures to ensure they are allowable and in accordance with grant expenditure guidelines.

Agency Progress

- WPSD is in the process of installing an automated substitute-teacher assignment and tracking system in order to better document ARRA-related expenditures.

OVERVIEW OF AUDITED AGENCY

The Woburn 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 City of Woburn and is governed by the local school committee, which is composed of seven 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.

WPSD consists of eleven schools hosting pre-kindergarten through twelfth grades: the high school, two middle schools, and eight elementary schools. There are 4,809 students enrolled, and WPSD employs a team of 594 administrators, teachers, and staff. As a learning resource for elementary and secondary education, WPSD's primary mission is to "provide a safe, healthy, and nurturing environment where all students will be provided the educational opportunity to achieve at high levels in order that they will learn both the academic and social skills necessary to be successful in higher education, career and community."

During our audit period, 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 City of Woburn was awarded \$780,643 to fund these ARRA programs operated by WPSD. MRRO also reported award expenditures totaling \$160,091 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.

Woburn 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	\$ 311,946	\$ 16,964	\$ 16,964
Education Jobs	<u>468,697</u>	<u>156,104</u>	<u>143,127</u>
Total	<u>\$ 780,643</u>	<u>\$ 173,068</u>	<u>\$ 160,091</u>

RTT funds were budgeted to pay for instructors' attendance at seminars addressing the RTT educational framework, as well as educational software. Education Jobs funds were budgeted to pay the salaries of instructors who might otherwise have 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 6.66 FTE positions had been created or retained 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 Woburn 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 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.
- 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 City of Woburn, 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.

At the conclusion of our audit, a draft copy of our report was provided to WPSD officials for their review and comments. WPSD provided written comments specific to Audit Finding No. 2 and verbally commented on the other Audit Finding. All verbal comments provided by WPSD 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 Woburn Public School District (WPSD) followed its longstanding policies and procedures for the management of its grant programs and awards funded by the Department of Elementary and Secondary Education, 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 unaware 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.

2. IMPROVEMENTS NEEDED IN DOCUMENTATION OF ARRA EXPENDITURES

According to ARRA guidelines, expenses billed against ARRA grants must be properly documented. However, our audit of WPSD's use of ARRA funding during our audit period found several instances, totaling \$4,620, in which expenses were not properly documented, thereby calling into question the allowability of these expenses.

ARRA grant guidance states that, in the administration of grants, recipients such as WPSD must use fiscal controls and fund accounting procedures that will ensure proper disbursement of, and accounting for, grant funds received under any funding award and that recordkeeping must be sufficient in detail to properly substantiate all claims for payment and expenditures made under the grant. In keeping with this guidance, WPSD's Policy Manual states, in part:

All claims for payment from school department funds will be processed in accordance with regulations developed by the Superintendent. Payment will be authorized against invoices properly supported by approved purchase orders, with properly submitted

vouchers, or in accordance with salaries and salary schedules approved by the School Committee.

Despite these requirements, our review of payments made from WPSD's RTT grant during our audit period disclosed that some expenditures were not supported with proper documentation. Specifically, we reviewed the documentation SPSD was maintaining relative to all expenditures, totaling \$13,950, and identified 15 instances (of which 13 pertained to undocumented substitute teachers), totaling \$4,620, for which the supporting documentation was mathematically inaccurate, was incomplete, or contained inadequate detail as to objective and RTT-related purpose of the expense. Although WPSD officials subsequently provided verbal explanations of the RTT-related purpose for these expenses, WPSD's hardcopy documentation of these expenses either was contradictory or was insufficient to support these costs as allowable expenses.

WPSD officials agreed that there was not adequate documentation to support these expenditures. These officials also stated that the agency's accounts payable procedures would be reviewed and corrective action taken, including updating WPSD's payment procedures specific to its ARRA programs such as RTT.

Recommendation

WPSD should continue to develop and revise its accounts payable procedures for ARRA expenditures to ensure that all ARRA expenditures are properly documented and spent in accordance with the terms and conditions of the ARRA grant awards.

Auditee's Reply

We are in the process of instituting the AESOP Substitute Call In System. This system will allow us to identify which teacher or staff member is out for the day and what substitute is replacing them. We hope to have this up and running by February 1st.