



Commonwealth of Massachusetts
Office of the State Auditor
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Marlborough Public School District's Use of Certain American Recovery and Reinvestment Act Funds For the period August 10, 2010 through July 31, 2011



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Marlborough 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 City of Marlborough and is governed by the local school committee, which is composed of the Mayor (as Chairperson) and six 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 July 31, 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.

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

Agency Progress

- MPSD has begun to document a system of internal controls that will reasonably ensure compliance with specific laws and regulations that will adequately safeguard ARRA funds.
- MPSD has implemented a system to minimize the time between the receipt and expenditure of cash advances to help prevent it from being in an excess cash position.

OVERVIEW OF AUDITED AGENCY

The Marlborough 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 City of Marlborough and is governed by the local school committee, which is composed of the Mayor (as Chairperson) and six 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 six schools hosting pre-kindergarten through twelfth grades: the high school, the middle school, and four elementary schools. There are approximately 4,500 students enrolled, and MPSD employs a team of approximately 700 administrators, teachers, and other staff members. 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 City of Marlborough was awarded \$593,636 to fund these ARRA programs operated by MPSD. MRRO also reported award

expenditures² totaling \$174,112 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 expenditures reported by MRRO.

Marlborough 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	\$ 408,239	\$ 47,500	\$ 7,465
Education Jobs	<u>185,397</u>	<u>185,397</u>	<u>166,647</u>
Total	<u>\$ 593,636</u>	<u>\$ 232,897</u>	<u>\$ 174,112</u>

RTT funds were budgeted to pay for contractual services, professional staff salaries, and supplies and materials. Education Jobs funds were budgeted to pay for the salaries of instructors who would 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 3.6 FTE positions were either retained or created with the Education Jobs program 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 Marlborough Public School District (MPSD) for the period August 10, 2010 through July 31, 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 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 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 City of Marlborough, 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 July 31, 2011, MPSD 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 Marlborough Public School District (MPSD) followed its longstanding 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 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 the 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 longstanding policies and procedures for grant management.

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 of assets.

Auditee's Response

*This recommendation is understood and will be implemented. Using the tool entitled **Internal Control Guide** published by the Office of the Comptroller, Quality Assurance Bureau, MPSD has begun to review and further define our internal controls.*

2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS

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

Our review of ARRA funds advanced to MPSD for its RTT program noted that MPSD did not spend all the funds it was advanced for its RTT program, causing it to be in an excess cash position. Specifically, DESE gave MPSD three advances for the RTT program, amounting to

\$27,465, that had remained unspent as of July 31, 2011, for as many as 193 days. Further, even though MPSD did not spend its first (January 19, 2011) advance of \$6,786, which was automatically determined by DESE's grant-management system³, it requested additional advances of \$679 on March 8, 2011 and \$20,000 on July 12, 2011. MPSD is obligated to monitor expenditures closely to minimize the time that elapses between the receipt and disbursement of funds advanced and 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 amounts needed to carry out the program's purpose. 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.

As a sub-grantee, MPSD is required to follow this rule. Since MPSD received RTT program funds before they were needed, the process it used to budget for its program did not fully comply with the provisions of 34 CFR 80.21. An MPSD official indicated that the district's excess-cash position for its RTT program was, in part, not the result of MPSD'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 MPSD's line-item budget once the budget was approved by DESE. The official also indicated that MPSD's requests for additional advances were based on its anticipation of RTT-related expenses⁴ that were subsequently delayed. However, MPSD 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.

³ DESE calculated the initial advance amount by dividing the total grant allocation by the number of months in the grant duration.

⁴ During August 2011, the payment of expenses attributed to the RTT program totaling \$22,651 was approved by the MPSD school committee.

Recommendation

Regardless of whether it specifically requests funds or receives them automatically from DESE's grant-management system, MPSD 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 MPSD 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 MPSD 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 MPSD in an excess cash position.

Auditee's Response

This recommendation is understood and has been implemented.