



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

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

### ***Highlight of Audit Findings***

- SPSD 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.

### ***Recommendations of the State Auditor***

- SPSD 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.

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

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## OVERVIEW OF AUDITED AGENCY

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

SPSP consists of six schools hosting pre-kindergarten through twelfth grade: the high school, the middle school, and four elementary schools. There are 2,756 students enrolled, and SPSP employs a team of 282 administrators, teachers, and staff. As a learning resource for elementary and secondary education, SPSP's primary mission is to "ensure that our students develop the 21<sup>st</sup> century knowledge and skills that prepare them to succeed in an increasingly global and technological society."

During our audit period, in addition to other grant awards, SPSP 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 SPSP, 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 Somerset was awarded

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\$226,954 to fund these ARRA programs operated by SPSD. MRRO also reported award expenditures totaling \$82,706 as of June 30, 2011. The following table, which includes data on SPSD's first-year allocation based on its approved budget, summarizes awards and expenditures<sup>2</sup> reported by MRRO.

**Somerset 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	\$ 116,876	\$27,584	\$ 27,584
Education Jobs	<u>110,078</u>	<u>55,122</u>	<u>55,122</u>
Total	<u>\$ 226,954</u>	<u>\$82,706</u>	<u>\$ 82,706</u>

RTT funds were budgeted to pay for instructors' attendance at seminars addressing the RTT educational framework, and computer equipment. Education Jobs funds were budgeted to pay the salaries of instructors who may 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 two FTE positions were retained as of June 30, 2011.

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<sup>2</sup> Expenditures reported by MRRO could include funds advanced by the state to SPSD 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 Somerset Public School District (SPSD) for the period August 10, 2010<sup>3</sup> through June 30, 2011. The objectives of our audit were to determine whether American Recovery and Reinvestment Act of 2009 (ARRA) funds awarded to SPSP 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 SPSP 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 SPSP has controls in place to ensure that federal stimulus funds are safeguarded against loss, theft, and misuse.
- Budgets prepared by SPSP 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 SPSP's federal stimulus reports to determine whether they were in compliance with reporting requirements.

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<sup>3</sup> The audit period start date was determined to be the beginning project date established by DESE for SPSP's Education Jobs program.

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- Cash management practices to ensure that SPSD 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 Somerset, and the local school district. We compared this information with other source documents and interviewed knowledgeable SPSD 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, SPSD 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 SPSD officials for their review and comments. SPSD officials informed the Office of the State Auditor that SPSD would not provide written comments to our report. However, all verbal comments provided by SPSD relative to the issues contained in this report were considered in the drafting of the final report.

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## AUDIT FINDINGS

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

Although the Somerset Public School District (SPSD) followed its long-standing policies and procedures for the management of its grants programs and awards funded by 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 SPSD 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 SPSD 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, SPSD 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 SPSD officials, who indicated that they were unaware of the need for ARRA-specific internal controls and relied on SPSD's long-standing policies and procedures for grant management.

***Recommendation***

SPSD 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.