



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

Official Audit Report-Issued December 17, 2012

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

Highlight of Audit Findings

BPSD 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

- BPSD 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.

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

OVERVIEW OF AUDITED AGENCY

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

BPSD consists of four schools hosting pre-kindergarten through twelfth grades: the high school, the middle school, and two elementary schools. There are 2,302 students enrolled, and BPSD employs a team of 261 administrators, teachers, and staff. As a learning resource for elementary and secondary education, BPSD's primary mission is "to ensure that the education provided to its students is of the highest quality, while assuring the community that school resources are wisely spent."

During our audit period, in addition to other grant awards, BPSD 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 BPSD, 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 Bourne was awarded \$540,823 to fund these ARRA programs operated by BPSD. MRRO also reported award

expenditures totaling \$65,116 as of June 30, 2011. The following table, which includes data on BPSD's first-year allocation based on its approved budget, summarizes awards and expenditures² reported by MRRO.

Bourne 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	\$219,091	\$ -	\$ -
Education Jobs	<u>321,732</u>	<u>89,380</u>	<u>65,116</u>
Total	<u>\$540,823</u>	<u>\$89,380</u>	<u>\$ 65,116</u>

RTT funds were not budgeted for as of June 30, 2011. Education Jobs funds were budgeted to pay a portion of the salaries for staff 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.

² Expenditures reported by MRRO could include funds advanced by the state to BPSD 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 Bourne Public School District (BPSD) for the period August 10, 2010³ through June 30, 2011. The objectives of our audit were to determine whether American Recovery and Reinvestment Act of 2009 (ARRA) funds awarded to BPSD 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 BPSD 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 rules, regulations, and directives to determine compliance with any ARRA-specific guidelines.
- Internal control plans to determine whether BPSD has controls in place to ensure that federal stimulus funds are safeguarded against loss, theft, and misuse.
- Budgets prepared by BPSD 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 BPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.

³ The audit period start date was determined to be the beginning project date established by DESE for BPSD's Education Jobs program.

- Cash management practices to ensure that BPSD 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 Bourne, and the local school district. We compared this information with other source documents and interviewed knowledgeable BPSD 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, BPSD 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 BPSD officials for their review and comments. All verbal comments provided by BPSD relative to the issue contained in this report were considered in the drafting of the final report.

AUDIT FINDINGS

IMPROVEMENTS NEEDED IN DOCUMENTATION OF ARRA-SPECIFIC INTERNAL CONTROLS

Although the Bourne Public School District (BPSD) followed its long-standing policies and procedures for the management of its grants programs and awards funded by the Massachusetts 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 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 BPSD 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 BPSD 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, BPSD 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 BPSD officials, who indicated that they were unaware of the need for ARRA-specific internal controls and relied on BPSD's long-standing policies and procedures for grant management. Once brought to their attention, BPSD officials began working with town department heads on adopting ARRA-specific internal controls for the school district.

Recommendation

BPSD should continue working with the town to 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.