



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

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

Highlight of Audit Findings

- RPSD 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.
- RPSD'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 RPSD as required by federal regulations and guidance issued by the U.S. Department of Education (USDOE). As a result, RPSD 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 RPSD's Education Jobs program.

Recommendations of the State Auditor

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

OVERVIEW OF AUDITED AGENCY

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

RPSD consists of six schools hosting pre-kindergarten through twelfth grades: the high school, the middle school, and four elementary schools. There are 2,876 students enrolled, and RPSD employs a team of 452 administrators, teachers, and staff. As a learning resource for elementary and secondary education, RPSD's primary mission is to inspire, challenge and empower its students to acquire the knowledge, skills and values to become responsible and caring citizens in a diverse society.

During our audit period, in addition to other grant awards, RPSD 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 RPSD, 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 Randolph was awarded

\$1,056,826 to fund these ARRA programs operated by RPSD. MRRO also reported award expenditures totaling \$9,346 as of June 30, 2011. The following table, which includes data on RPSD's first-year allocation based on its approved budget, summarizes awards and expenditures² reported by MRRO.

Randolph 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	\$ 340,821	\$42,500	\$9,346
Education Jobs	<u>716,005</u>	<u>0</u>	<u>0</u>
Total	<u>\$1,056,826</u>	<u>\$42,500</u>	<u>\$9,346</u>

RTT funds were budgeted to pay for instructors' attendance at seminars addressing the RTT educational framework and consultants. No Education Jobs funds were budgeted for during the audit period. 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 no positions were created or retained as of June 30, 2011.

² Expenditures reported by MRRO could include funds advanced by the state to RPSD 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 Randolph Public School District (RPSD) 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 RPSD 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 RPSD 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 RPSD has controls in place to ensure that federal stimulus funds are safeguarded against loss, theft, and misuse.
- Budgets prepared by RPSD 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 RPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.
- Cash management practices to ensure that RPSD 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 Randolph, and the local school district. We compared this information with other source documents and interviewed knowledgeable RPSD 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, RPSD 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 Randolph Public School District (RPSD) 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 RPSD 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 RPSD 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, RPSD 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 RPSD officials, who indicated that they were unaware of the need for ARRA-specific internal controls and relied on RPSD's long-standing policies and procedures for grant management.

Recommendation

RPSD 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

In regards to finding 1, the district has no recollection of any questions being asked related to specific ARRA internal control. Had we been asked we would have shown how we used our internal accounting system and business practices to control ARRA grant expenditures. We also would have shown how our practices required specific sign-offs for the expenditure of ARRA funds. While we do not have a process documented, we had numerous examples of how the system works. We had appropriate measures in place to eliminate any fraud associated with the grant, but again were never asked how we were addressing the prevention of loss, theft, misuse, or fraud. All of Randolph's ARRA related reporting was done through DESE and the district met all timelines and requirements.

Auditor's Reply

We agree with RPSD's response that signoffs on expenditures were required and that periodic reporting occurred on schedule. In fact, our audit finding concluded that the agency followed its long-standing policies and procedures, which included these activities. However, ARRA requires

levels of transparency and accountability beyond those applicable to RPSD's existing activities and necessitates the establishment of an ARRA-specific internal control system.

Moreover, the system must be formally documented and not left to a verbal understanding. RPSD indicates in its response that, although it had an internal control process in place, the process was not documented, which is the same response RPSD provided during our onsite audit field work when an ARRA-specific internal control plan was requested. Documentation is a key component of internal control. Without documenting the process, too much is left to misinterpretation, which could lead to noncompliance and RPSD's not meeting specific ARRA program goals and objectives.

Also, ARRA programs pose a unique set of risks, such as the inability to spend the funds quickly, the inability to create or save jobs, a lack of transparency, and the means by which the programs will be funded when the ARRA money runs out, that should be considered when establishing the ARRA-specific internal control plan. Accordingly, since RPSD's ARRA programs are multiyear, and it had just begun to spend some of the program funds during the audit period, we recommend that RPSD adopt a system of internal controls specific to ARRA.

2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS

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

Our review of ARRA funds advanced to RPSD from DESE for its RTT program noted that RPSD did not always spend the funds advanced, causing it to be in an excess cash position. Specifically, during our audit period RPSD received advances totaling \$9,346; of which \$6,071 remained unspent for as many as 162 days. Even though this amount was automatically determined by DESE's grant-management system (which determines the initial advance amount by dividing the total grant allocation by the number of months in the grant duration), RPSD is obligated to monitor expenditures closely to minimize the time that elapses between the receipt

and disbursement of funds advanced. It 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 cash requirements to carry out the program's purpose. RPSD is considered a sub-grantee, and according to EDGAR must follow cash advance requirements that limit the amount and timing of funds advanced to that which is immediately needed. 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 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 RPSD received RTT programs funds significantly in advance of its needs, the process it used to budget for its program did not fully comply with the provisions of 34 CFR 80.21. An RPSD official indicated that the district's excess cash position was not the result of RPSD's physically requesting an advance of program funds. Rather, this official pointed out that it resulted from DESE's grant-management system's automatic generation of an advance amount equal to a percentage of RPSD's line item budget once the budget was approved by DESE. However, RPSD 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 grant-management system, RPSD 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, 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 RPSD finds itself to have more

federal funds on hand than is immediately needed, it should return these excess funds to the grantee (in this case, DESE). Moreover, if RPSD determines that it is not going to spend the originally budgeted program funds, it should amend the line-item budget to preclude DESE's grant-management system from generating advances that would put RPSD in an excess cash position.

Auditee's Response

For finding 2, we find it difficult to be held accountable for not expending funds we did not draw down. While the audit notes that the reason we had the funds under our control was that DESE had sent them to us the report still puts the finding on the district. We believe this is an unsupported finding as the state had not established a mechanism to return funds prior to the end of the fiscal year. Had there been such a mechanism we would have complied with 34 CFR 80.21.

Finally, at the time of the audit the district had only expended \$9,346 of the \$1,056,826 awarded to the district and that to a single vendor for an approved ARRA purpose. So it is difficult to understand how such little activity could justify these findings. We know we had the appropriate controls in place and the audit unfairly paints a picture of how the district managed ARRA funding.

Auditor's Reply

RPSD has a responsibility to manage its advances in a manner that is compliant with federal regulations. Even though DESE's grant-management system automatically advanced the funds, the amount advanced was based on the line item budget request submitted by RPSD. If RPSD budgeted for an expense that it was no longer anticipating, DESE's grant-management system would not be aware of this fact unless RPSD submitted a budget amendment reducing its budget. Although we agree that DESE shares the responsibility for not having a mechanism in place for returning funds before year-end, federal regulations require RPSD to take steps to address the excess funds instead of keeping the idle advance funds on hand. Consequently, we again recommend that RPSD implement our recommendations relative to this matter, given that it may find itself facing the same problem when it begins to request advances on the remaining balance of its ARRA funding.