



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

Official Audit Report-Issued August 23, 2012

Oxford 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 Oxford Public School District (OPSD) was established pursuant to the provisions of Chapter 71 of the Massachusetts General Laws. OPSD is considered a department of the Town of Oxford and is governed by the local school committee, which comprises five elected members. The school committee, under the guidance of the Massachusetts Board of Education, is responsible for the general management and control of OPSD's financial and educational affairs. The Superintendent of Schools is the chief executive officer of OPSD and is responsible, along with other administrative staff, for the day-to-day management of OPSD under the direction of the committee. During our audit period and in addition to other grant awards, OPSD 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 OPSD for the period August 10, 2010¹ through June 30, 2011. The objectives of our audit were to determine whether ARRA funds awarded to OPSD for RTT and Education Jobs programs were used for their intended purposes and in compliance with program requirements, and to evaluate whether OPSD was complying with ARRA accounting and reporting requirements.

Highlight of Audit Findings

- OPSD had not designed a system of internal control 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.
- OPSD'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 OPSD as required by federal regulations and guidance issued by the U.S. Department of Education (DOE). As a result, OPSD received some ARRA funding significantly in advance of its needs.

Recommendations of the State Auditor

- OPSD 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 assets.

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

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

Agency Progress

- OPSD is in the process of updating its internal control plan to specifically include ARRA-related funds.
- OPSD will begin monitoring grant allocations and communicate with DESE Grants Management staff to ensure that it does not have excess federal funds on hand.

OVERVIEW OF AUDITED AGENCY

The Oxford Public School District (OPSD) was established pursuant to the provisions of Chapter 71 of the Massachusetts General Laws. OPSD is considered a department of the Town of Oxford and is governed by the local school committee, which comprises five elected members. The committee, under the guidance of the Massachusetts Board of Education, is responsible for the general management and control of the OPSD's financial and educational affairs. The Superintendent of Schools is the chief executive officer of OPSD and is responsible, along with other administrative staff, for the day-to-day management of OPSD under the direction of the committee.

OPSD consists of four schools hosting pre kindergarten through twelfth grades: the high school, the middle school, and two elementary schools. OPSD also operates an alternative education program for seventh through twelfth grades. There are approximately 2,000 students enrolled, and OPSD employs a team of approximately 300 administrators, teachers, and staff. As a learning resource for elementary and secondary education, OPSD's primary mission is to challenge, educate, and nurture students by maximizing their ability and potential through programs integrated with community, industry, and post-secondary schools.

During our audit period and in addition to other grant awards, OPSD 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 (DOE) grant provided to certain states and used by local educational agencies, such as OPSD, 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 DOE 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 Oxford was awarded \$459,249 to fund these ARRA programs operated by OPSD. MRRO also reported award expenditures totaling \$231,244 as of June 30, 2011. The following table, which includes data on OPSD's first-year allocation based on its approved budget, summarizes awards and expenditures² reported by MRRO.

Oxford 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	\$230,752	\$ 19,230	\$ 2,747
Education Jobs	<u>228,497</u>	<u>228,497</u>	<u>228,497</u>
Total	<u>\$459,249</u>	<u>\$247,727</u>	<u>\$231,244</u>

RTT funds were budgeted to pay for teacher attendance at RTT workshops and for substitute instructor salaries. Education Jobs funds were budgeted to pay a portion of OPSD's share of its monthly health insurance premiums paid for active teachers. 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 equivalents. In addition to reporting the uses of program funds, information reported to MRRO indicated that neither of these ARRA programs reported the creation or retention of personnel through the quarterly reporting period ended June 30, 2011.

² Expenditures reported by MRRO could include funds advanced by the state to OPSD 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 Oxford Public School District (OPSD) for the period August 10, 2010 through June 30, 2011. The objectives of our audit were to determine whether American Recovery and Reinvestment Act (ARRA) funds awarded to OPSD 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 OPSD 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 OPSD has controls in place to ensure that federal stimulus funds were safeguarded against loss, theft, and misuse.
- Budgets prepared by OPSD 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.
- 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 OPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.
- Cash management practices to ensure that OPSD 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 Oxford and the local school district. We compared this information with other source documents and interviewed knowledgeable OPSD officials about the data. We determined that the data were sufficiently reliable for the purposes of this report.

Based on our review we have concluded that, except as reported in the Audit Results sections of this report, for the period August 10, 2010 through June 30, 2011, OPSD 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 Oxford Public School District (OPSD) 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 control that would (a) provide reasonable assurance of compliance with applicable laws 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 (OMB), U.S. Department of Education (DOE), and the Office of the State Comptroller (OSC) emphasize the importance of a proper system of internal controls for ensuring 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 and regulations and will ensure that funds are safeguarded from loss, theft, and misuse. Accordingly, DOE, in its effort to assist and provide internal control guidance to agencies, conducted a series of webinars which 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 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. Our review noted that OPSD 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, OPSD cannot ensure compliance with applicable laws and regulations or that ARRA funds are adequately protected from loss, theft, or misuse.

An OPSD official indicated that the municipality's independent public accountant indicated that it was not necessary for OPSD to develop an ARRA-specific internal control plan and risk assessment because the requirement pertains to state agencies, not cities and towns. However, contrary to the independent accountant's assertion, sound business practices advocate that OPSD establish reasonable controls over its ARRA programs.

Recommendation

OPSD 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

Regarding the system of internal controls, the town does have an internal control system which covers all areas of expenditure controls mentioned for all funds, however, we recognize it is not ARRA-specific. We are in the process of updating this plan to specifically include ARRA related funds.

2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS

Although OPSD adequately reported and accounted for Education Jobs and 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 the RTT program and OPSD's disbursement of such funds. As a result, OPSD received some ARRA funding significantly in advance of its needs, which is contrary to federal guidelines.

Our review of ARRA funds advanced to OPSD from DESE for its RTT program noted that OPSD did not spend the funds advanced, causing it to be in an excess cash position. Specifically, OPSD received an advance of \$2,747 from DESE on January 25, 2011 that remained unspent as of June 30, 2011, or 156 days later. Even though this amount was automatically advanced by DESE's grants management system (which determines the initial advance amount by dividing the total grant allocation by the number of months in the grant duration), OPSD 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. OPSD is considered a subgrantee, and according to EDGAR must follow cash advance requirements that limit the amount and timing of funds advanced to what 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 OPSD received RTT program funds significantly in advance of its needs, the process it used to budget for its RTT program did not fully comply with the provisions of 34 CFR 80.21. An OPSD official indicated that the excess cash position was not the result of OPSD's physically requesting an advance of program funds. Rather, it resulted from DESE's grants management system automatically generating an advance amount equal to a percentage of OPSD's line-item budget once the budget was approved by DESE. However, clearly OPSD 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 grants management system, OPSD needs to recognize its responsibility 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.

DOE 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, the DOE 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 OPSD 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 OPSD determines that it is not going to spend the originally budgeted program funds, it should amend the line-item budget to preclude DESE’s grants management system from automatically generating advances that would put OPSD in an excess cash position.

Auditee's Response

Regarding the transfer of ARRA funds from the state to us, we must again point out that this process is not within our control. The state Department of Elementary and Secondary Education grant management process sends an initial allocation of funds upon approval of the grant. There does not exist a readily known mechanism to return funds mid-year, only unspent funds at the end of the grant period. However the district will monitor these grant allocations and communicate with the Grants Management staff within the Department of Elementary and Secondary Education in the future to ensure the district does not have federal funds sitting idle.