



Commonwealth of Massachusetts  
Office of the State Auditor  
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Official Audit Report-Issued November 15, 2012

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

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

- FPSD 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.
- FPSD's internal control procedures did not adequately minimize the time that elapsed between the transfer of ARRA funds for its RTT program and the disbursement of such funds by FPSD as required by federal regulations and guidance issued by the U.S. Department of Education. As a result, FPSD received some ARRA funding significantly in advance of its needs.

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

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***Recommendations of the State Auditor***

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

## OVERVIEW OF AUDITED AGENCY

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

FPSD consists of five schools hosting pre-kindergarten through twelfth grades: the high school, the middle school, and three elementary schools. FPSD also operates an alternative education program for seventh through twelfth grades. There are approximately 2,000 students enrolled, and FPSD employs a team of approximately 250 administrators, teachers, and staff. As a learning resource for elementary and secondary education, FPSD's primary mission is to "motivate, inspire and empower students to become independent, curious, creative, life-long learners prepared to succeed in an increasingly diverse, global, and technological society."

During our audit period and in addition to other grant awards, FPSD 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 FPSD, 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

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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 Fairhaven was awarded \$641,731 to fund these ARRA programs operated by FPSD. MRRO also reported award expenditures totaling \$133,671 as of June 30, 2011. The following table, which includes data on FPSD's first-year allocation based on its approved budget, summarizes awards and expenditures<sup>2</sup> reported by MRRO.

**Fairhaven Public School District**  
**Summary of ARRA Awards, Allocations, and Expenditures**  
**As of June 30, 2011**

<u>Program</u>	<u>Award</u>	<u>Year One Allocation</u>	<u>Expenditures</u>
Race to the Top	\$187,378	\$ 0	\$ 0
Education Jobs	<u>454,353</u>	<u>141,713</u>	<u>133,671</u>
Total	<u>\$641,731</u>	<u>\$141,713</u>	<u>\$133,671</u>

RTT funds were not budgeted for. Accordingly, no allocation was received and no expenditures were made in year one. Education Jobs funds were budgeted to pay a portion of instructor and staff salaries and fringe benefits. Budgeted amounts were for allowable expenses under the terms of the ARRA program award.

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 with the Education Jobs program as of June 30, 2011.

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<sup>2</sup> Expenditures reported by MRRO could include funds advanced by the state to FPSD 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 Fairhaven Public School District (FPSD) 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 FPSD 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 FPSD 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 FPSD has controls in place to ensure that federal stimulus funds were safeguarded against loss, theft, and misuse.
- Budgets prepared by FPSD 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 non-statistical sampling approach based on 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 FPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.
- Cash management practices to ensure that FPSD 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 Fairhaven, and the local school district. We compared this information with other source documents and interviewed knowledgeable FPSD 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, FPSD 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 FPSD officials for their review and comments. FPSD officials informed the Office of the State Auditor that FPSD would not provide written comments to our report. However, all verbal comments provided by FPSD officials relative to the issues contained in this report were considered in the drafting of the final report.



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## AUDIT FINDINGS

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

Although the Fairhaven Public School District (FPSD) 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 FPSD 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 FPSD 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, FPSD 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 FPSD officials, who indicated that they were not aware of the need for ARRA-specific internal controls and relied on FPSD's long-standing policies and procedures for grant management.

***Recommendation***

FPSD 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.

**2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS**

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

Our review of ARRA funds advanced to FPSD from DESE for its Education Jobs program noted that FPSD did not always spend the funds advanced, causing it to be in an excess cash position. Specifically, during our audit period FPSD received advances of \$133,671, of which \$43,109 remained unspent for as many as 65 days. FPSD 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.

In this regard, 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. FPSD 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 FPSD received Education Jobs program 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 FPSD official indicated that the district's excess cash position was due to the district overestimating its monthly payroll expenses when requesting funds from DESE. However, FPSD 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, FPSD 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. 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 FPSD finds itself to have more federal funds on hand than are immediately needed, it should return those excess funds to the grantee (in this case DESE). Moreover, if FPSD 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 generating advances that would put FPSD in an excess cash position.