



Commonwealth of Massachusetts
Office of the State Auditor
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Shrewsbury Public School District's Use of Certain American Recovery and Reinvestment Act Funds For the period July 1, 2009 through September 30, 2011



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INTRODUCTION AND SUMMARY OF FINDINGS AND RECOMMENDATIONS

The Shrewsbury 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 Shrewsbury 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 SPSD's educational and financial affairs. The Superintendent of Schools is the Chief Executive Officer of SPSD under the direction of the committee. During our audit period, in addition to other grant awards, SPSD received from the Massachusetts Department of Elementary and Secondary Education (DESE) and the Massachusetts Department of Early Education and Care (EEC) American Recovery and Reinvestment Act of 2009 (ARRA) grants under the Education Jobs and Part B of the Individuals with Disabilities Education Act (IDEA-Part B) 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 July 1, 2009 through September 30, 2011. The objectives of our audit were to determine whether ARRA funds awarded to SPSD for the Education Jobs and IDEA-Part B 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 control that would provide reasonable assurance of compliance with applicable laws and regulations affecting its Education Jobs and IDEA-Part B awards funded by ARRA or ensure that federal stimulus funds received for these two ARRA programs were safeguarded from possible loss, theft, or misuse.
- SPSD's internal control procedures did not adequately minimize the time that elapses between the transfer of ARRA funds for its Education Jobs program and the disbursement of such funds by SPSD as required by federal regulations and guidance issued by the U.S. Department of Education (USDOE).
- SPSD procedures did not adequately ensure that all ARRA funding received was expended under the IDEA-Part B programs before the grant duration date and the required final financial reports were filed within 60 days after the end of the grant period as required by DESE guidelines.

- SPSD procedures did not adequately provide that all expenditures were supported by sufficient supporting documentation to ensure expenditures are allowable and in accordance with grant expenditure guidelines.

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.
- SPSD should develop procedures to 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, SPSD should amend the line-item budget to minimize the possibility of DESE's grant-management system automatically generating advances that would put SPSD in an excess cash position.
- SPSD should develop procedures to adequately monitor the award funding received from ARRA programs and ensure it is expended before the grant duration date.
- SPSD should develop procedures to adequately monitor the reporting of grants to ensure that ARRA program final financial reports are filed by the required deadline.
- SPSD should develop procedures to provide sufficient and adequate supporting documentation for all ARRA expenditures to ensure they are allowable and in accordance with grant expenditure guidelines.

OVERVIEW OF AUDITED AGENCY

The Shrewsbury 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 Shrewsbury 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 SPSP's educational and financial 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 nine schools hosting pre-kindergarten through twelfth grades: the high school, two middle schools, and six elementary schools. There are approximately 5,900 students enrolled, and SPSP employs a team of approximately 790 administrators, teachers, and staff. During our audit period, in addition to other grant awards, SPSP received from the Massachusetts Department of Elementary and Secondary Education (DESE) an American Recovery and Reinvestment Act of 2009 (ARRA) grant under the Education Jobs and the Part B of the Individuals with Disabilities Education Act (IDEA-Part B) programs. The Commonwealth's Department of Early Education and Care (EEC) also provided ARRA funds for the IDEA-Part B program. The Education Jobs program is a one-time appropriation, which may be used through September 30, 2012, that the U. S. Department of Education (USDOE) awarded to save or create education jobs that provide educational and related services for early childhood, elementary, and secondary education. ARRA funding for the IDEA-Part B program provided by USDOE is to provide additional financial support in aiding SPSP's existing IDEA-Part B program's mission of providing students with disabilities, including children age three through five, access to a free and appropriate education that meets their particular needs and prepares them for further education, employment, and independent living.

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 Shrewsbury was awarded \$3,016,068 to fund these ARRA programs operated by SPSP. MRRO also reported award expenditures totaling \$1,934,463 as of September 30, 2011. The following table, which includes data

on SPSD's allocations received based on its approved budgets, summarizes awards and expenditures¹ reported by MRRO:

**Shrewsbury Public School District
Summary of ARRA Awards, Allocations, and Expenditures**

As of September 30, 2011

Program	Award	Allocation	Expenditures
Education Jobs	\$1,189,765	\$1,189,765	\$ 108,160
IDEA-Part B (EEC)	68,203	68,203	68,203
IDEA-Part B (DESE)	<u>1,758,100</u>	<u>1,758,100</u>	<u>1,758,100</u>
Total	<u>\$3,016,068</u>	<u>\$3,016,068</u>	<u>\$1,934,463</u>

Education Jobs funds were budgeted to pay for support staff salaries. IDEA-Part B funds were budgeted to pay for professional and support staff salaries, training and travel, instructional materials and supplies, and construction of a special education classroom located at the high school. Budgeted amounts were for allowable expenditures 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 as of September 30, 2011 Education Jobs program expenditures allowed SPSD to retain 48.4 FTE positions and IDEA-Part B program expenditures allowed SPSD to retain 28 FTE positions.

¹ 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 Shrewsbury Public School District (SPSD) for the period July 1, 2009 through September 30, 2011. The objectives of our audit were to determine whether American Recovery and Reinvestment Act of 2009 (ARRA) funds awarded to SPSP for the Education Jobs and Part B of the Individuals with Disabilities Education Act (IDEA-Part B) 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), Massachusetts Department of Early Education and Care, Office of the State Comptroller (OSC), 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 were adequately 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 SPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.
- 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 Shrewsbury, 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 of July 1, 2009 to September 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.

AUDIT FINDINGS

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

Although the Shrewsbury Public School District (SPSD) followed its long-standing policies and procedures for the management of its grant 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 Education Jobs program and Part B of the Individuals with Disabilities Education Act (IDEA-Part B) 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, although SPSD had developed an internal control document in calendar year 2008, it had not been updated to include a system of internal controls designed specifically for ARRA funds that would (a) provide reasonable assurance of compliance with applicable laws, rules, and regulations or (b) ensure that federal stimulus funds were safeguarded from loss, theft, and misuse.

We brought this matter to the attention of SPSD personnel, who indicated that they were unaware of the need to develop any ARRA-specific internal controls and that they had never been instructed by any oversight agency to do so.

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 of assets.

2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS

Although SPSD 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 elapses between the transfer of ARRA funds for this program and SPSD's disbursement of those funds. As a result, SPSD received some ARRA funding significantly in advance of its needs, which is contrary to federal regulations.

Our review of ARRA funds advanced to SPSD for its Education Jobs program noted that SPSD did not spend all the funds advanced, causing it to be in an excess cash position. Specifically, SPSD received an advance of \$108,160 from DESE on July 26, 2011, of which \$49,490 remained idle for 57 days until spent, and the remaining \$58,670 remained unspent as of September 30, 2011, or 66 days later. Even though this amount was automatically advanced 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), SPSD is obligated to monitor expenditures closely to minimize the time between the receipt and disbursement of funds advanced.

Provisions of the Education Department General Administrative Regulations (EDGAR) require cash advances to be limited to the minimum needed to the actual, immediate cash requirements to carry out the program's purpose. These regulations are published in the 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 funds and their disbursement by grantee or sub-grantee.

As a sub-grantee, SPSD is required to follow this rule. Since SPSD received program funds significantly in advance of its needs, the process it used to budget for its Education Jobs program did not fully comply with the provisions of 34 CFR 80.21. An SPSD official indicated that the district's excess cash position was, in part, not the result of SPSD's requesting an advance of program funds. Rather, this official pointed out that it occurred because DESE's grant-management system automatically generated an advance amount equal to a percentage of SPSD's line-item budget once the budget was approved by DESE. However, SPSD is obligated to ensure that it has controls over its ARRA budgeting process that will allow it to fully comply with 34 CFR 80.21.

Recommendation

Regardless of whether it specifically requests funds or receives them automatically from DESE's grant-management system, SPSD needs 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. 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/subrecipients's level in excess of immediate (usually 3 days) needs." Consequently, in the future, if SPSD finds itself to have more federal funds on hand than are immediately needed, it should return the excess

funds to the grantee (in this case DESE). Moreover, if SPSD determines that it is not going to spend the originally budgeted program funds, it should amend the line-item budget to prevent DESE's grant-management system from generating advances that would put SPSD in an excess cash position.

3. IMPROVEMENTS NEEDED IN ARRA REPORTING AND FILING PROCEDURES

According to DESE and EEC guidelines, at the conclusion of grant activities, ARRA recipients such as SPSD must submit a final financial (school year-end) report to the funding department, on a prescribed form accounting for the expenditure of funds received. The final financial report is required to be submitted to the funding department within 60 days of the end of the grant date. Our review of SPSD's year-end reporting to DESE and EEC for the ARRA grants awarded to it under the IDEA-Part B program found that SPSD overstated its ARRA expenditures in these reports and also filed its final reports significantly beyond the required reporting deadline. As a result, DESE and the Department of Early Education and Care (EEC) lacked the accurate and timely information necessary to effectively monitor and assess SPSD's performance under these grants. Also, failure to submit final reports by their due dates could cause oversight agencies to withhold future grant payments from SPSD.

DESE's and EEC's grant-management guidelines require school districts such as SPSD to accurately account for program expenditures at the end of the grant award period (school year) and to submit a year-end report within 60 days of the end of the grant period or school year. Specifically, DESE's Grants Management Procedural Manual, Section IV, Subsection C, states, in part:

The FR1 form should be submitted to Grants Management within 60 days of the end date of the grant. Grant recipients should file their reports after carefully reconciling all figures with their city auditor, town accountant, or agency business manager.

During our audit period, SPSD filed two ARRA IDEA-Part B program year-end reports for the fiscal year ended June 30, 2010: one to DESE and another to EEC. We reviewed the accuracy and timeliness of both of these reports, comparing the expenditures reported in these reports to those recorded in SPSD's accounting records along with the filing dates. Based on our review, we found that the reports filed by SPSD to its funding agencies indicated that the funding received under these grants was fully expended. However, SPSD's accounting records indicated

unexpended balances of \$4,048 (\$1,127 in its DESE award and \$2,921 in its EEC award). Also, the report to DESE was filed 83 days late, and the report to EEC was filed 327 days late.

Because SPSD did not file these year-end reports to its funding agencies in an accurate and timely manner, DESE and EEC lacked the accurate and timely information necessary to effectively monitor and assess SPSD's performance under these grants. Also, the failure to submit final reports by their due dates could cause oversight agencies to withhold future grant payments from SPSD.

An SPSD official stated that SPSD experienced turnover in the key personnel who were responsible for ARRA grant oversight. However, this official added that, going forward, SPSD staff will closely monitor ARRA grants and will ensure that all year-end reports are accurate and filed on time. It should also be noted that, once the OSA brought this matter to the attention of SPSD officials, they began returning any unspent grant funds to DESE and EEC as required by federal regulations.

Recommendation

SPSD should develop formal internal control procedures to ensure that all ARRA year-end reports are accurate and filed by the required deadline.

4. IMPROVEMENTS NEEDED IN DOCUMENTATION OF ARRA EXPENDITURES

According to ARRA guidelines, expenses billed against ARRA grants must be properly documented. However, our audit of SPSD's use of ARRA funding during our audit period found two instances totaling \$3,000 in which expenses were not properly documented, thereby calling into question the allowability of these expenses.

ARRA grant guidance states that, in the administration of grants, recipients such as SPSD must use fiscal controls and fund accounting procedures that will ensure proper disbursement of and accounting for grant funds received under any funding award and that recordkeeping must be sufficient in detail to properly substantiate all claims for payment and expenditures made under the grant. In keeping with this guidance, SPSD's "Manual of Financial Procedures," Part 2, Section 1, states, in part:

All entries are to be supported by adequate documentation that clearly shows the justification and authorization for the transaction. . . . A complete paper trail should be kept so that the auditors will be able to reconstruct and/or justify all entries.

Despite these requirements, our review of payments made from SPSD's IDEA-Part B School Age Children grant during our audit period disclosed that some expenditures were not always supported with proper documentation. Specifically, we reviewed the documentation SPSD was maintaining relative to a judgmental sample of 17 expenditures totaling \$90,849 and identified two expenditures from May 2011 totaling \$3,000 payable to the same vendor for which the supporting documentation was incomplete and contained inadequate detail as to the objective and ARRA-related purpose of the expense. According to SPSD officials, the purpose of the expense was to provide an annual contribution in conjunction with other local education agencies to help launch an online professional development program to train facilitators needed to conduct online classes for special education employees or others dealing with special education students. However, the documentation SPSD maintained relative to this expense did not indicate who, when, where, or how SPSD special education employees participated in the online classes. In addition, there was no documentation to support whether SPSD entered into a formal written agreement with the vendor that detailed the scope of services and terms and conditions for this on-line special education learning program.

SPSD officials agreed that there was not adequate documentation to support this expenditure. These officials also stated that the agency's accounts payable procedures will be reviewed and corrective action taken, including updating SPSD's "Manual of Financial Procedures."

Recommendation

SPSD should continue to develop and revise procedures over its accounts payable process for ARRA expenditures to ensure that all ARRA expenditures are properly documented.