



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

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

Highlight of Audit Findings

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

Recommendations of the State Auditor

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

Agency Progress

- MPSD feels that its current policies and procedures create an effective system of internal controls specific to ARRA. We disagree and recommend that by creating ARRA-specific internal controls, MPSD will be better able to ensure compliance with ARRA regulations and performance and reporting requirements, detect and prevent fraud, and safeguard ARRA funds.
- MPSD has made a concerted effort to ensure that funds advanced are spent within the timeframe allowed by USDOE.

OVERVIEW OF AUDITED AGENCY

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

MPSD consists of four schools hosting pre-kindergarten through twelfth grades: the high school, the middle school, and two elementary schools. There are 1,767 students enrolled, and MPSD employs a team of 241 administrators, teachers, and staff. As a learning resource for elementary and secondary education, MPSD's primary mission is to offer its students an academic program of sufficient rigor, scope, and depth that will prepare them to be confident and capable lifelong learners with a strong sense of community.

During our audit period, in addition to other grant awards, MPSD 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 MPSD, 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 Mashpee was awarded \$401,184 to fund these ARRA programs operated by MPSD. MRRO also reported award expenditures totaling \$42,010 as of June 30, 2011. The following table, which includes data on MPSD's first-year allocation based on its approved budget, summarizes awards and expenditures² reported by MRRO.

Mashpee 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	\$117,312	\$ 10,200	\$ 1,457
Education Jobs	<u>283,872</u>	<u>283,872</u>	<u>40,553</u>
Total	<u>\$401,184</u>	<u>\$294,072</u>	<u>\$42,010</u>

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

² Expenditures reported by MRRO could include funds advanced by the state to MPSD 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 Mashpee Public School District (MPSD) 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 MPSD 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 MPSD 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, and Massachusetts Recovery and Reinvestment Office rules, regulations, and directives to determine compliance with any ARRA-specific guidelines.
- Internal control plans to determine whether MPSD has controls in place to ensure that federal stimulus funds are safeguarded against loss, theft, and misuse.
- Budgets prepared by MPSD 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 MPSD's federal stimulus reports to determine whether they were in compliance with reporting requirements.
- Cash management practices to ensure that MPSD 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 Mashpee, and the local school district. We compared this information with other source documents and interviewed knowledgeable MPSD 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, MPSD 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 Mashpee Public School District (MPSD) followed its long-standing policies and procedures for the management of its grants programs and awards funded by the 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 MPSD 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 MPSD 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, MPSD 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 MPSD officials, who indicated that they were unaware of the need for ARRA-specific internal controls and relied on MPSD's long-standing policies and procedures for grant management.

Recommendation

MPSD 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

It is the Mashpee Public School District's contention in the absence of specific ARRA directives that all funds were safeguarded from loss, theft, and misuse. This was done in the following manner:

- *All revenues were received by the Town Treasurer and held on behalf of the school department.*
- *All requisitions are approved by the School Business Administrator before the authorization of a purchase order has been issued. This is to ensure that monies are expended in the way they were intended.*
- *Payments of the ARRA grants were processed by the Business Office and then sent to the School Committee in a warrant process to be voted on before payment was issued.*
- *Town Accountant reviews the warrant to make sure that funds are being processed for payment.*

The Mashpee Public School [District] feels that it has a number of safeguards, checks, and balances. The Town has the responsibility under the Federal Single Audit Act to have the ARRA grant audited.

Auditor's Reply

We agree that, as stated in our report, MPSD has a number of safeguards, checks, and balances over its funds and that it applied its longstanding policies and procedures relative to grants administration to its ARRA programs. However, ARRA requires levels of transparency and accountability beyond those applicable to MPSD's existing grants. For example, ARRA requires quick spending of program dollars in a relatively short time frame, intricate periodic reporting of ARRA program transactions to identify vendors and sub-vendors, and accurate reporting on the number of jobs retained and created, none of which are addressed in MPSD's existing policies and procedures. Accordingly, MPSD must develop ARRA-specific internal controls that will ensure compliance with laws, rules, and regulations that mitigate fraud, waste, and abuse. Particularly, MPSD should develop an internal control plan that addresses accountability for ensuring funds are spent properly and in a transparent manner. At a minimum, its ARRA internal controls should account for the potential for misuse and include appropriate steps to identify and prevent wasteful spending and minimize fraud and abuse. MPSD should also ensure that qualified personnel oversee ARRA program activities and that ARRA awards and expenditures are timely, accurately, and appropriately accounted for and reported.

2. IMPROVEMENTS NEEDED IN FEDERAL CASH MANAGEMENT CONTROLS

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

Our review of ARRA funds advanced to MPSD from DESE for its Education Jobs and RTT programs noted that MPSD did not always spend the funds advanced, causing it to be in an excess cash position. Specifically, during our audit period, MPSD received advances totaling \$42,010; all of which remained unspent for as many as 204 days. Even though these amounts were 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), MPSD 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. MPSD 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 subgrantee.

Since MPSD received Education Jobs and RTT programs funds significantly in advance of its needs, the process it used to budget for its programs did not fully comply with the provisions of 34 CFR 80.21. An MPSD official indicated that the district's excess cash position was not the result of MPSD'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 MPSD's line item budget once the budget was approved by DESE. However, MPSD 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, MPSD 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 MPSD finds itself to have more federal funds on hand than are immediately needed, it should return these excess funds to the grantee (in this case, DESE). Moreover, if MPSD 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 MPSD in an excess cash position.

Auditee’s Response

[MPSD] is in complete agreement with the Audit finding that the funds were held in excess as the funds were received automatically in advance from the DESE grant – management system. In the Ed Jobs Grant it was clear that [MPSD was] going to use the funds in the second year. [MPSD] has made a concerted effort to make sure that any Federal Funds are expended within the three day period. In reference to ensure that the School District not have funds in excess, the use of the U. S. Department of Education’s G5 Payments module might have been a more efficient way to request funds, which allows the grantee to draw down funds at any time and not just monthly or quarterly. This allows the School District to monitor funds more efficiently, draw down and hold funds for three days or less and not put the burden of the town to fund the expenses in advance of the reimbursement.