



Education Stabilization Fund..... Its impact on District Fiscal and Audit Matters



Today's Presenters

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Topics

- Impact of Pandemic related Funding
- Business official observations
- ESSER audit requirements and audit planning

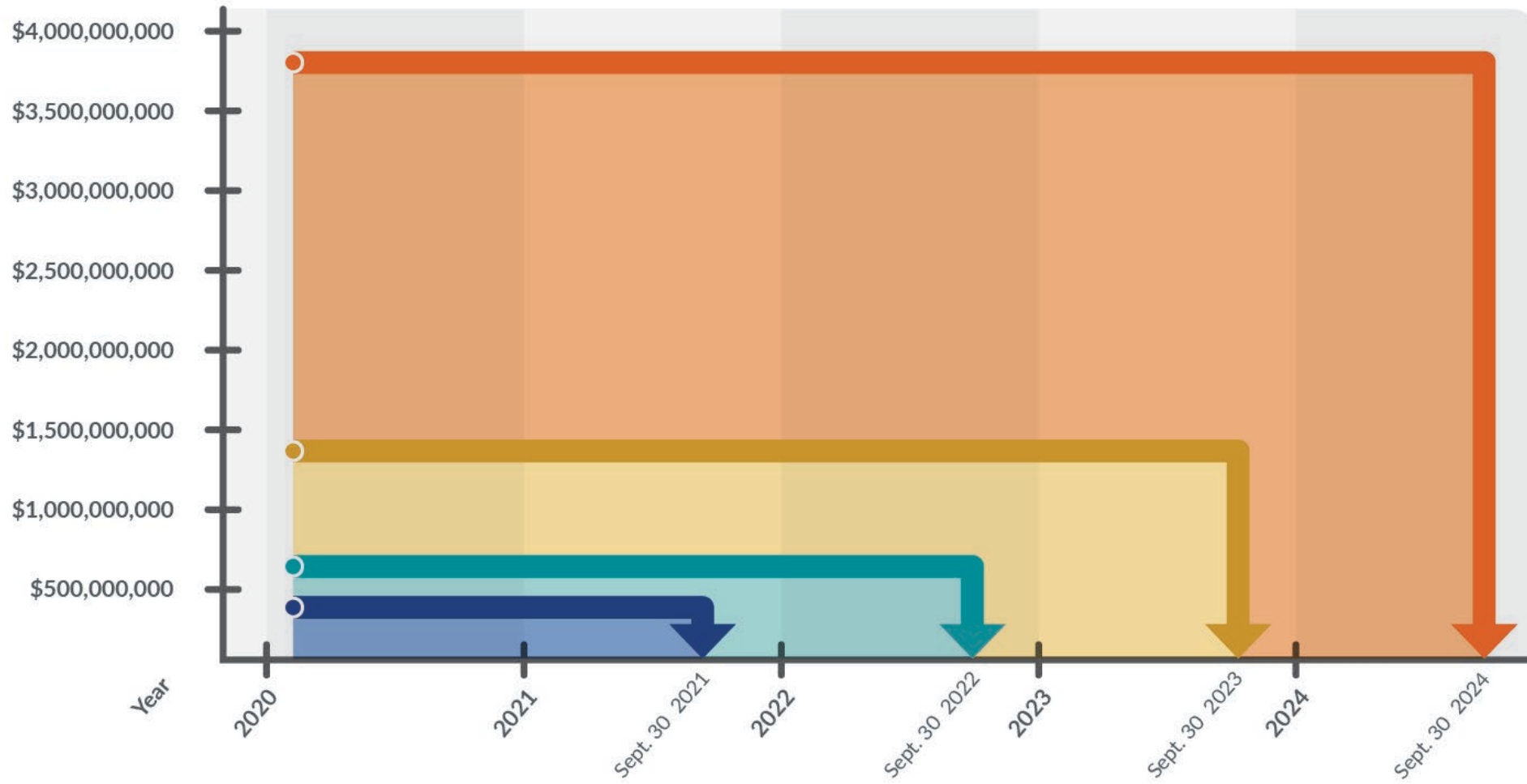


Impact of pandemic related funding

Supplement vs supplant – how did the district leverage funding?

K-12 federal COVID 19 funding (Cliff)

Federal funds



Primary flow of federal funds

- CRF
- ESSER I, Equity, & GEER
- ESSER II
- ESSER III & 11t

Objects are Closer than they appear!

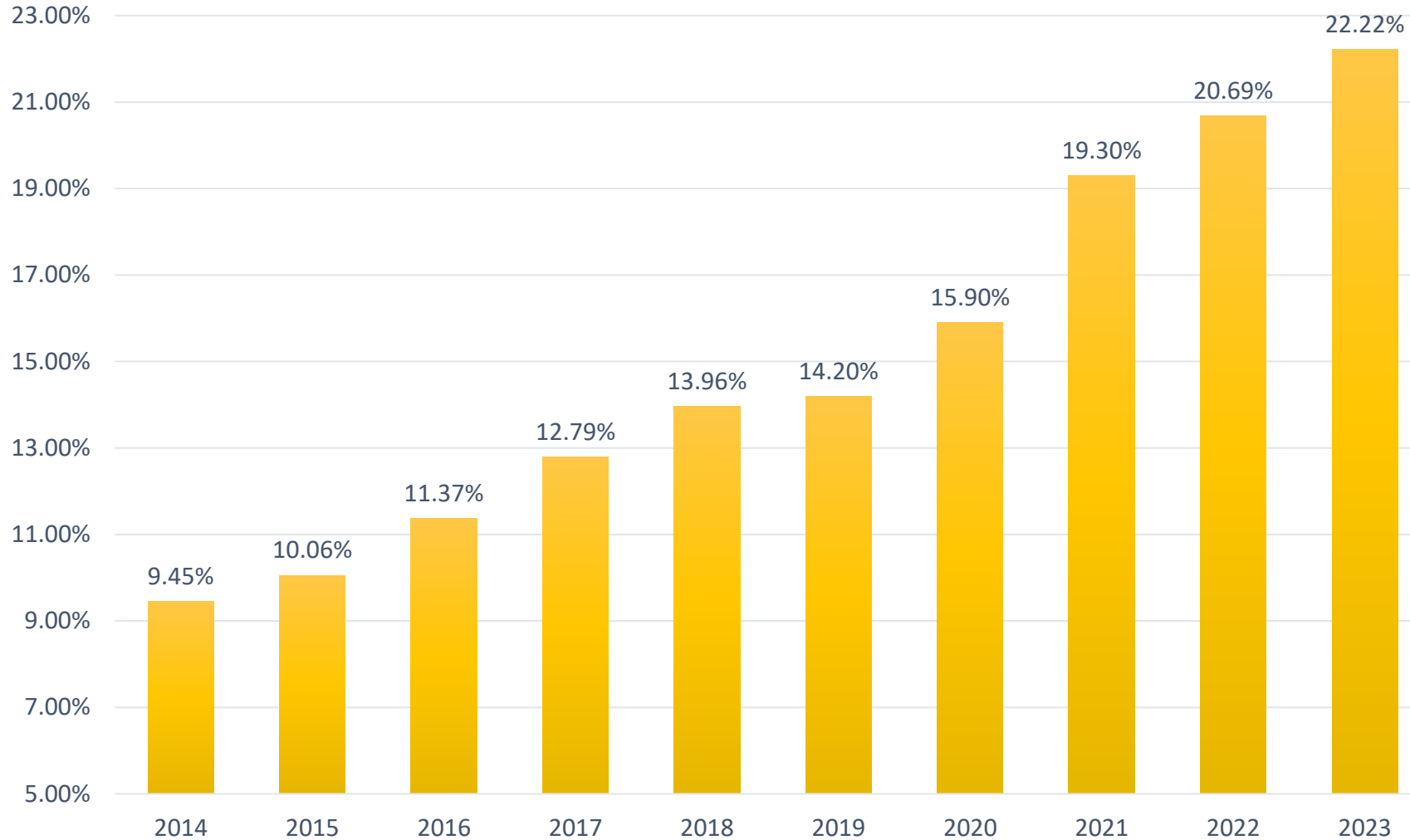
Fiscal Cliff

Benefits the past several years

- Additional money for additional costs
- Significant investment in technology and upgrades
- District's fund balance – on average – saw substantial uptick

Statewide Average - General Fund - Fund Balance as a % of Expenditures

As of June 30



Remember these days!

The "COVID Increase"

What now?
Not reflective of every district.
Some Districts already experiencing lay-offs

Fiscal Cliff (Continued)

Key question – what is sustainable?

- Know historic staffing and enrollment to have perspective of sustainability
- Districts spending down fund balance too fast
- If additional positions and programs were created – plan for future

Hard question – Once you have a luxury does it become a necessity?

Fiscal Cliff and Spending Cliff

Created a change to several District's cost structure

- Technology Fiscal Cliff
 - Significant new investment in technology
 - Strategic planning for technology (what must be maintained?)
 - Lifecycle of devices – increase in repairs and maintenance
 - Planning around replacement and maintenance
 - Bond fund resources

Fiscal Cliff and Spending Cliff (Continued)

Curriculum Software Fiscal Cliff

- Gone are the days of using the same textbooks for 8 – 10 years
- Onslaught of cloud-based programs
- Locked into multi-year contracts
- Understanding cost of commitments over time
- Cashflow – don't overlook risk

Fiscal Cliff and Spending Cliff (Continued)

Curriculum Software Fiscal Cliff

- Additional programs added
- Additional cost / effort surrounding training to deliver new content
- Content and improvements changed quickly, little time to develop delivery methods
- A review of the quality of curriculum
- “COVID” changes happened fast – what “purchases” should be continued/renewed/changed?

Responding to funding changes?

Review grants received/spent to date – is there a plan to fully utilize the funds? Is there potential expansion of existing grants (IDEA, Title I), that can help offset cliff, maximize carryover to buy more time for transition

Identify costs that have been added that aren't necessarily "one-time" – is there a plan for how to fund these costs?

Internal communication is critical

- Involve Departments
- Proactive better than reactive (what is the best choice vs this must happen)
- Manage expectations

What To Do Now? (Continued)

Understand and Communicate how you utilized pandemic funding

Grant Expenditure	Grant Distribution			
	General Fund Off-Set	General Fund Supplement	Capital Projects Fund	Enrichment Fund
Remote learning	\$ 23,177,436	\$ 2,203,538	\$ -	\$ -
Technology (laptops, iPads, other)	-	10,648,901	5,602,246	-
PPE & related supplies	-	749,808	-	-
Student support & Extended Learning	1,241,596	15,425,223	-	-
Other (misc. and indirects)	-	982,959	-	-
Childcare	-	-	-	3,093,056
Total	\$ 24,419,032	\$ 30,010,429	\$ 5,602,246	\$ 3,093,056

Has the District clearly tracked its funding usage?

The better the usage data, the easier it will be to:

Determine what must be eliminated

Identify what can be reprogramed

What To Do Now? (Continued)

Communication is Critical for the District Leadership

	<u>2021-2022</u>	<u>2022-2023</u>	<u>2023-2024</u>	<u>2024-2025</u>
<u>General Fund</u>				
EL	3.00	3.00	3.00	3.00
EL from 31a		2.00	4.00	4.00
EL from Section 41			2.00	2.00
Nurse from 31o				1.00
<u>31a At Risk</u>				
EL	20.60	20.60	20.60	20.60
EL moved to GF		(2.00)	(4.00)	(4.00)
Social Worker		1.40	2.68	4.00
Nurse		0.34	0.66	
<u>31o</u>				
Social Worker	4.00	4.00	4.00	4.00
Social Worker moved to 31a		(1.40)	(2.68)	(4.00)
Nurse	1.00	1.00	1.00	1.00
Nurse moved to 31a		(0.34)	(0.66)	(1.00)
<u>Title I</u>				
EL	7.00	7.00	7.00	7.00
<u>Section 41</u>				
EL	2.40	2.40	2.40	2.40
EL New Comer	2.00	2.00	2.00	2.00
EL New Comer moved to GF			(2.00)	(2.00)
GRAND TOTAL	40.00	40.00	40.00	40.00

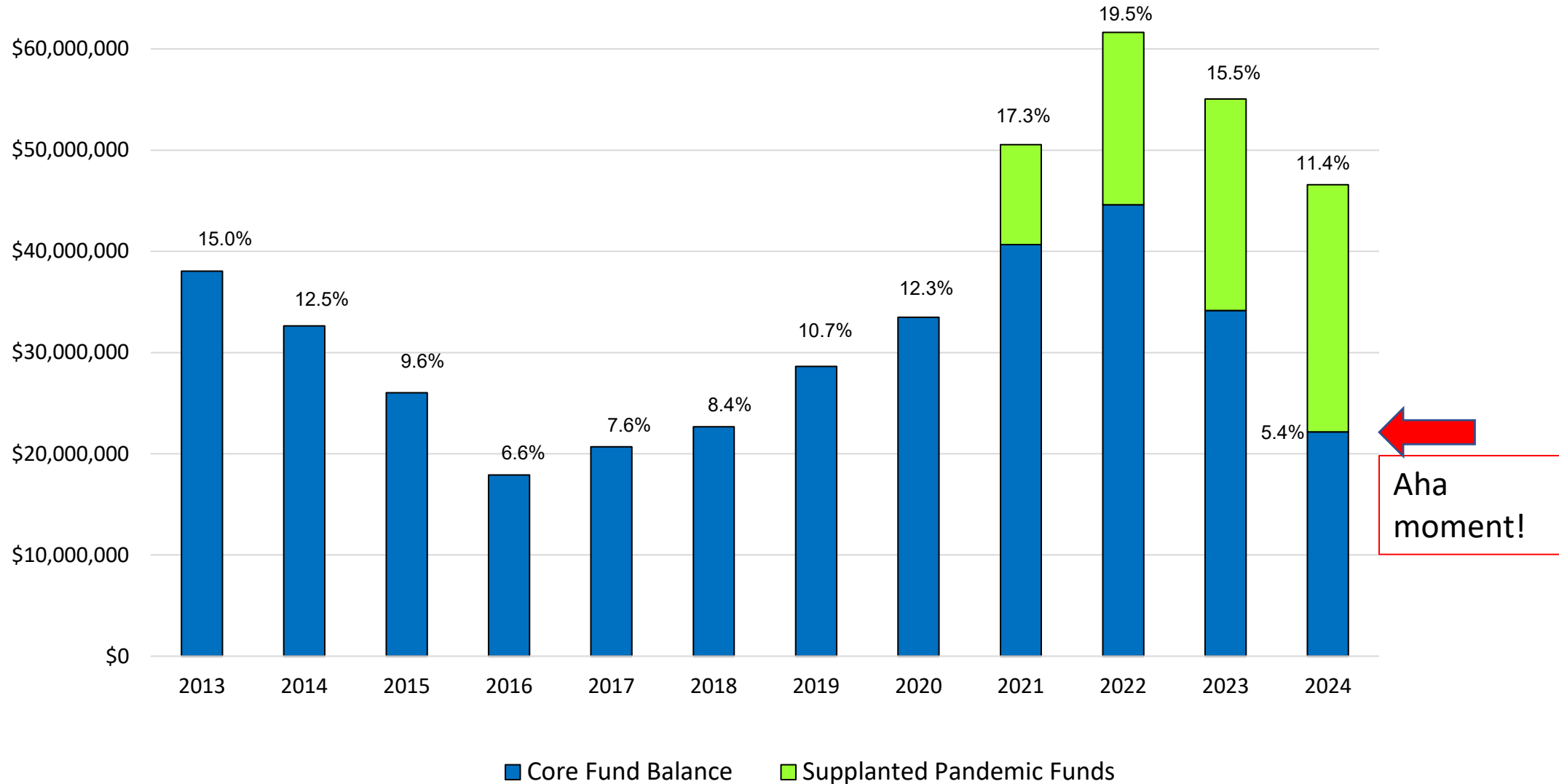
Creating an Aha moment...

Key questions:

- What was added?
- Where was it funded?
- Where can it be funded?
- If not “fundable”, what gets eliminated?
- How can this be illustrated?

What To Do Now? (Continued)

illustration: General Fund - Fund Balance as a % of Expenditures



ESSER III – Impact on operating costs

- Back of napkin test
 1. Total revenues
 2. Less ESSER III expenditures form SEFA
 3. Net recurring revenue
 4. Less total expenditures
 5. Equals - Cost to cover/eliminate
 6. Compare to fund balance (aka how much time do you have?)

ESSER III – Impact on operating costs

- Back of napkin test – Real District X (using 2024 budget data)

element	amount
Total revenue	80,800,000
ESSER III expense	1,600,000
Net recurring revenue	79,200,00
Total expenditures	80,400,000
Costs to cover/eliminate	1,200,000
Fund balance - BOY	13,600,000

Observations:

Using 10% of FB
 Cost overage, approximately 10 positions
 FB about 15%, can “handle it” in short term
 What adjustments will be needed to balance budget over time?
 Concern – suggests action could be delayed

What To Do Now? (Continued)

Communication is Critical

○ Communication with Board Members

- New board members – Educate on planned use of one-time funding
- Returning board members – reminders of what “happened” over the last 4 years
- Educate on why the “increase” fund balance
- Educate on the funding sources
- Consider breaking out one-time funding impact of fund balance in presentations
- Pro-active approach to use of fund balance in return to normalized cost structure

What To Do Now? (Continued)

Communication is Critical

○ Communication with the Community

- Determine how best to communicate potential programs changes (assume the media will not fully understand!)
- Consistent communication within and outside District
- Clarify why specific programs may not be able to be continued



ESSER III

Nearing the end – some observations from business officials

Education Stabilization Fund

ALN #84.425

- Program contains the following individual grants:
 - ESSER (the original!)
 - ESSER II –Formula
 - Remember –ESSER II Equalization NOT FEDERAL
 - ESSER III –Formula
 - ESSER III –Section 11 t Equalization
 - GEER

Name of Grant	ESSER I	ESSER II	ARP ESSER III	Section 11t
Expenditure Period Start	March 13 , 2020	March 13 , 2020	March 13, 2020	March 13, 2020
Expenditure Period End	September 30 , 2021	September 30 , 2022	September 30, 2023	September 30, 2023
Tydings Amendment End	September 30 , 2022	September 30 , 2023	September 30, 2024	September 30, 2024
Liquidation Period End	December 30 , 2022	December 30 , 2023	December 30, 2024	December 30, 2024
Application Deadline	N/A	N/A	December 15, 2021	June 15, 2022

Tydings Amendment Period date is the last date to obligate funds for each specific grant

ESSER III - organizational challenges

- How has ESSER III been used?
 - a. Funding used to for teacher salaries, instructional coaches, buses, and other technology in order to free up other funds for larger projects (like HVAC)
 - b. Funds used for payroll – Some teachers, coaches, truancy and student support specialists
 - c. Funds used for various building upgrades and special projects

ESSER III – managing expectations

- What are business manager concerns?
 - a. Ensuring the items expending money on are one-time expenditures, or making sure that there is a plan to cover those recurring expenditures from a different source after the one-time funding goes away.
 - b. Part of above – communicating the one-time nature of those funds and expected drop in revenue from a budget perspective to board members and other administration.
 - c. Meeting the 20% learning loss requirement and adjusting plans that have morphed over time to meet those requirements.
 - d. Ensuring projects are meeting deadlines that align with grant award letters and making sure that they stay on track.

ESSER III - leveraging resources

- What items are on the business manager priority list as the cliff approaches?
 - a. Finding homes for all ESSER funded positions to other grants. Reviewing job duties to see if there are other programs like At Risk, Special Education, and Title I where those expenditures can fit or be tweaked to make them fit.
 - b. For those jobs that don't fit into another program, preparing for discussions to determine what positions are critical and what can be cut.
 - c. Analyzing positions funded by these grants: retaining necessary positions and moved to general fund (or other sources) and eliminating positions that aren't deemed necessary.
 - d. Identifying recurring funding sources for added positions that are retained.



ESSER III

Audit issues and planning

ESF – Audit Testing

*** ESF is NOT HIGH RISK in the 2024 Compliance Supplement

No changes to compliance requirements to be tested

No significant changes to ESF compliance supplement or cross-cutting section based on CS for LEAs.

**Reporting deemed applicable for LEAs/subrecipients

No changes to ESF in MDE Audit Manual

Updated FAQs: <https://oese.ed.gov/files/2022/12/ESSER-and-GEER-Use-of-Funds-FAQs-December-7-2022-Update.pdf>

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	Y	Y	N	N	N	Y	Y	Y

ESF – Audit Testing

- Not high risk...what will the impact be?
- Use Type A evaluation
- Were there findings in prior year (davis bacon?)
- If no, apply remaining criteria.
- If not findings will be difficult to conclude other than Low iRsk A
- If Low Risk A, what now?
 - Will have to assess to determine if high risk B's
 - If no High Risk B's, and need coverage, Can (not MUST) test ESF.
 - Possible other "traditional" programs will be tested and ESF will not.
- YOU CANNOT JUST SELECT ESF TO TEST AS A TYPE A
- planning and assessment documentation is essential.

ESF – Audit Testing

Equipment/Real Property Management

1. Must receive prior approval for capital expenditures for equipment acquisition or improvements to land/buildings/equipment
2. Must test the following:
 - Internal controls over equipment/real property management
 - Inventory management of equipment acquired under federal grants
 - Disposition of equipment and real property acquired under federal grants

Special Tests

1. Wage Rate Requirements
 1. Related to equipment/real property management
 2. Davis-Bacon Act
 3. All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC sections 31413144, 3146, and 31473148).
 4. **Audit Procedure (Compliance):** Select a sample of construction contracts and subcontracts greater than \$2,000 that are covered by the Wage Rate Requirements and perform the following procedures:
 1. Verify that the required prevailing wage rate clauses were included in the contract or subcontract.
 2. For each week in which work was performed under the contract or subcontract, verify that the contractor or subcontractor submitted certified payrolls

MDE noted there was an exceptional number of deficiencies found in districts' compliance with the Davis Bacon Act in relation to ESSER funds.

ESF – Audit Testing

Allowable Costs – Out of Period Grant Expenditures

- Requirement - For grants awarded in prior years, you cannot go back and try to recapture expenditures. Once the year is closed, it is closed. You can only go back for grants AWARDED in the CY that allow you to go back (otherwise this is a re-issue)
- Risks:
 - In an effort to utilize unspent funds, Districts/Charters have previously been offered “one-last chance” by MDE to go back and draw down unclaimed funds.
 - Districts/Charters that did not have an adequate spend-down plan may be looking to go back and claim prior year expenditures in an effort to spend down their full allocation
 - Subscriptions charged to ESF – should not go beyond the obligation date or there is a period of performance issue
 - Ex: ESSER III obligation end date September 30, 2024, funds not intended/allowed to cover a multi-year SBITA beyond this date regardless of installment or prepayment arrangement

Key allowability question – were the funds obligated by the end of the grant period and liquidated by the end of the liquidation period? Note, MDE position is a purchased item must be used during the obligation period.

ESF – Audit Testing

A	B	C	E	F	G	H	I	J	L	M	N
Activities Allowed or Unallowed	Allowable Costs/Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	Y	Y	N	N	N	Y	Y	Y

In Summary - ESSER Audit Risks

- Greatest focus area continues to be types of services allowed/allowable costs
- Award Budget Amendments were allowed into June 2024
 - When was the cost approved?
 - How far back can the cost go? (not farther than beginning of fiscal year!)
- Period of performance is NA, but program coming to an end!
- Procurement NA but could be buying significant “stuff”
- Davis Bacon (special test) was compliance area with most findings reported in 2023
- FS level question – will the absence of ESF funding create significant financial events? MDA discussion, Early Warning triggers, deficit elimination, going concern matters.



ESSER III

In conclusion....

Pandemic Funding Key Takeaways

- ESSER III provided the biggest single source of pandemic funding
- For more economically disadvantaged districts the funding was substantial
 - Created significant challenges to spend down the funds and reprogramming future budgets
- For lesser economically disadvantaged districts the funding was less significant
 - These districts potentially experiencing budget cuts currently
- ESF (ESSER) no longer HIGH RISK – a game changer in audit planning
- If ESSER is tested unique risks exist as the program approaches the end of its period of performance