



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE DEPUTY SECRETARY

September 26, 2012

The Honorable Deval Patrick
Office of the Governor
State House, Room 360
Boston, Massachusetts 02133

Dear Governor Patrick:

I am writing in response to Massachusetts' request to amend its approved Race to the Top grant project. Between June 15, 2012 and September 21, 2012, the State submitted amendment requests and supporting documentation to the U.S. Department of Education (Department); the State then provided additional clarification as requested. As you are aware, the Department has the authority to approve amendments to your plan and budget, provided that such a change does not alter the scope or objectives of the approved proposal. On October 4, 2011, the Department sent a letter and revised "Grant Amendment Submission Process" document to Governors of grantee States indicating the process by which amendments would be reviewed and approved or denied. To determine whether approval could be granted, the Department has applied the conditions noted in the document, and compared it with the Race to the Top program *Principles*, which are also included in that document.

I approve the following amendments:

- Revise the State's approved Race to the Top budget to align with the State's fiscal year, which runs from July 1 to June 30. These revisions will permit the State to more effectively manage the funds. The budget years for the State's grant are now as follows:
 - Year 1: September 24, 2010 to June 30, 2011
 - Year 2: July 1, 2011 to June 30, 2012
 - Year 3: July 1, 2012 to June 30, 2013
 - Year 4: July 1, 2013 to September 23, 2014

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The Department of Education's mission is to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access.

We understand that for reasons related to the State's accounting system, which is organized by state fiscal year rather than individual federal award periods, the State has added a period called "Year 5" for the purposes of its internal budget documentation to cover July 1, 2014 to September 23, 2014. The State will report expenditures in that time period as Year 4 expenditures. Funds shift between years to appropriately reflect the work to be completed in each year. See Appendix Table 2 for the revised summary budget table.

- Revise the indirect costs for Year 1 to reflect several differences from the manner in which indirect costs were budgeted and the way indirect costs were charged by the State. In particular:
 - The Massachusetts Department of Elementary and Secondary Education (ESE) has a 24.4% unrestricted rate in its Indirect Cost Agreement that was approved for use in its Race to the Top budget. However, the State's Office of the State Comptroller (OSC) charged ESE for indirect costs at the restricted indirect rate of 14.3% rather than the unrestricted rate of 24.4%. As a result, ESE incurred a savings of \$94,000. The OSC will waive that cost. The State has placed these funds in the Year 3 indirect cost budget category, and may make a request in the future to reallocate these funds if they are not needed for indirect cost purposes.
 - The State's information technology (IT) work is managed by the State's Executive Office of Education (EOE). The State's OSC charged an indirect cost rate of 10% against the IT work managed by EOE, and charged indirect costs against the full amount of contracts, as opposed to only against the first \$25,000 of each contract on a yearly basis. The State's OSC agreed to waive the difference between charging 24.4% with a cap on charging indirect costs on contract (as was budgeted in the State's approved Race to the Top budget), and charging 10% without a cap (reflecting the rate the OSC charged EOE), which totaled \$65,000. The State has placed these funds in the Year 3 indirect cost budget category, and may make a request in the future to reallocate these funds if they are not needed for indirect cost purposes. EOE does not currently have an approved indirect cost rate on file with the Department. Additionally, the Department requires a cap on charging indirect costs against contracts; indirect costs may only be charged against the first \$25,000 of each contract on a yearly basis. Given these factors, the Department has indicated to the State that the process used was not in alignment with Department policies and procedures. However, the Department has determined that there was no harm to the federal interest because there was an overall cost savings in indirect costs.
 - Indirect costs for subaward contracts are calculated by OSC at the end of the State fiscal year, which means that these indirect cost expenditures, incurred for Year 1 activities, are charged in Year 2. These indirect costs were calculated at the correct rate of 24.4%. The State has shifted this amount, which totals \$78,000, to the Year 2 budget to reflect this timing.
 - At this time, budgets for Years 2, 3, and 4 continue to reflect ESE's 24.4% indirect cost rate, with a cap of \$25,000 for contracts. At a future point in time, the State

may propose to the Department further revisions to the budget that reflect indirect cost rates approved by the Department for ESE and/or EOE. The State has indicated that it plans to submit an indirect cost allocation proposal for EOE to the Department by December 31, 2012.

- Revise the budget as indicated below to improve reporting accuracy and make it more useful as a performance management tool:
 - Transfer the costs for desktop computers and laptops from the “supplies” budget category to the “equipment” category, in alignment with the State’s Expenditure Classification handbook.
 - Modify the descriptions related to “travel,” both in and out of State, to reflect the outcome or aim of the travel, rather than specify a specific number of miles, trips, and employees, which was initially provided to show the cost basis, but is not useful at this point in time as a management tool.
- Remove office supply costs that were included in Race to the Top project-level budgets. The State has indicated that a variety of routine office supplies are included in ESE’s indirect cost base, but supplies specific to meetings and conferences are allowable. Funds in the amount of \$106,740 will be redirected to support other Race to the Top work.
- Revise the budget for “Funding subgranted to participating LEAs (50% of total grant)” for Year 1 from \$10,059,835 to \$7,805,133, to reflect actual expenditures by LEAs, and move the difference to Year 2, resulting in a Year 2 budget of \$40,568,090.
- Revise the budget as indicated in Appendix Table 1 for the reasons specified; see Appendix Table 1 for details.

The summary budget table reflecting these changes is included in Appendix Table 2.

The Department requests that the State submit any Year 2 budgetary adjustments by December 15, 2012, to better enable the Department and the State to track the State’s budget.

It is our understanding that these amendments will not result in a change in outcomes, nor will they substantially change the scope of work.

If you need any assistance or have any questions regarding Race to the Top, please do not hesitate to contact your Race to the Top Program Officer, Bridget Kelly, at 202-453-5534 or Bridget.Kelly@ed.gov.

Sincerely,

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Ann Whalen
 Director, Program and Policy Implementation
 Implementation and Support Unit

cc: Commissioner Mitchell Chester
Carrie Conaway
Helene Bettencourt
Saeyun Lee

Appendix

Table 1

Grant project area affected	Specific project	Description of change
A: State Success Factors	Overall program and grant management	1) In the “contractual” line, shift \$2,183,446 budgeted for Year 1 to Years 2, 3, and 4, due to minimal need for funds for program evaluation in Year 1, and the ramp-up of evaluation work in Years 2 through 4. (2) In the “personnel” line, shift \$409,063 from Year 1 to Year 4 due to lower than anticipated personnel costs in year 1 and expected need for these funds in Year 4.
B: Standards and Assessments	Create a unified PreK-12 teaching and learning system: Extended performance tasks	(1) In the “personnel” line, shift \$51,333 from Year 1 to Year 4 due to delays in hiring staff associated with the project. (2) In the “contractual” line, shift \$550,000 from Year 1 to Years 2, 3, and 4 to support the performance tasks; these funds were not expended in Year 1 due to delays in hiring staff to scope the project and delays from further refinement of the project that the State has indicated increased the quality of the project.
B: Standards and Assessments	Create a unified PreK-12 teaching and learning system: Teaching and learning system – Tech side	(1) In the “personnel” line, shift \$30,325 from Year 1 to Year 4 due to delays in hiring staff associated with the project. (2) In the “contractual” line, shift \$1,011,678 from Year 1 to Years 3 and 4, and \$98,912 to other expense categories in the same project to support other expenses for the teaching and learning system. These funds were budgeted for development and implementation of the teaching and learning system. As the State further developed its approach, which included opting to contracting for the system, not building the system, and conducting a joint procurement with another State, Massachusetts found that it had lower than estimated Year 1 costs. The State has indicated that the additional funds in Years 3 and 4 will support system integration and subscription costs. Note that the teaching and learning system is currently on track with the timelines indicated in the State’s approved scope of work.
C: Data Systems to Support Instruction	Transform State data systems: ELAR/MEPID updates	In the “contractual” line, shift \$785,800 not expended in Year 1 to Years 3 and 4 due to delays in hiring qualified contractual personnel.

Grant project area affected	Specific project	Description of change
D: Great Teachers and Leaders	Improve teacher and principal effectiveness based on performance: Evaluation framework and implementation	In the “contractual” line, shift \$2,693,819 from Year 1 to Years 3 and 4. The State indicated that the cost of the activities planned in the State’s approved plan for Year 1 did not require as much funding as previously estimated, and determined that the funds would be best spent supporting implementation of the educator evaluation regulations.
B: Standards and Assessments; C: Data Systems to Support Instruction; D: Great Teachers and Leaders	Various, as described under “Description of Change”	Shift \$1,285,854 in the overall summary budget in the “supplemental funding for participating LEAs” line, for the following projects and rationales: (A) For the project area of “Great Teachers and Leaders,” in the project budget “Improve teacher and principal effectiveness based on performance,” for the evaluation framework and implementation project: in the “supplemental funding for participating LEAs” line, shift \$131,696 from Year 1 to Year 2, since the grants for aligning human resources systems with evaluations were awarded in Year 2. (B) For the project area of “Data Systems to Support Instruction,” in the project budget “Transform State data systems,” in the Schools Interoperability (SIF) framework project: in the “supplemental funding for participating LEAs” line, shift \$1,133,511 from Year 1 to Year 4 due to project delays, and the use of Statewide Longitudinal Data System (SLDS) grant funds (which also support this work) prior to Race to the Top funds, since SLDS funds expire earlier than Race to the Top funds. For the same project, shift \$10,822 to other expense categories in the same project to support other expenses for the SIF project. (C) For the project area of “Standards and Assessments,” in the project budget “Expand implementation of proven secondary school programs, policies, and incentives,” in the STEM Early College High School project, shift \$9,825 from Year 1 to Year 4.

Appendix

Table 2

Massachusetts: Overall Budget Summary Table (updated as of September 25, 2012)					
Budget Categories	Project Year 1	Project Year 2	Project Year 3	Project Year 4	Total
1. Personnel	\$580,272	\$4,271,455	\$4,559,448	\$4,742,908	\$14,154,083
2. Fringe Benefits	\$195,726	\$1,480,747	\$1,583,136	\$1,650,949	\$4,910,558
3. Travel	\$40,832	\$300,453	\$377,974	\$357,320	\$1,076,579
4. Equipment	\$175,466	\$1,104,268	\$472,826	\$23,191	\$1,775,751
5. Supplies	\$1,710	\$17,670	\$18,270	\$14,770	\$52,420
6. Contractual	\$1,079,516	\$25,310,751	\$26,403,329	\$20,056,350	\$72,849,946
7. Training Stipends	\$0	\$0	\$0	\$0	\$0
8. Other	\$243,940	\$1,828,860	\$144,753	\$86,725	\$2,304,278
9. Total Direct Costs (lines 1-8)	\$2,317,462	\$34,314,204	\$33,559,736	\$26,932,213	\$97,123,615
10. Indirect Costs*	\$145,552	\$2,935,027	\$2,277,268	\$2,227,701	\$7,585,548
11. Funding for Involved LEAs	\$0	\$0	\$0	\$0	\$0
12. Supplemental Funding for Participating LEAs	\$891,220	\$6,624,510	\$6,272,827	\$6,502,280	\$20,290,837
13. Total Costs (lines 9-12)	\$3,354,234	\$43,873,741	\$42,109,831	\$35,662,194	\$125,000,000
14. Funding Subgranted to Participating LEAs (50% of Total Grant)	\$7,805,133	\$40,568,090	\$38,313,389	\$38,313,388	\$125,000,000
15. Total Budget (lines 13-14)	\$11,159,367	\$84,441,831	\$80,423,220	\$73,975,582	\$250,000,000