

Accountability and Oversight

RACE TO THE TOP FISCAL ACCOUNTABILITY AND OVERSIGHT REVIEW

Massachusetts

Date of Review: May 20–May 27, 2014

Race to the Top award: \$250,000,000.00

Acronyms:

ARRA – American Recovery and Reinvestment Act of 2009

EDGAR – *Education Department* General Administrative Regulations (codified in 34 Code of Federal Regulations, Parts 74 to 86 and 87 to 99)

GEPA – General Education Provisions Act

ISU – Implementation and Support Unit

LEA – Local Educational Agency

Summary of Monitoring Review:

The Department found that Massachusetts used its Race to the Top funds efficiently and effectively in order to meet the financial needs of the State and its LEAs. This report demonstrates Massachusetts's commitment to spend funds in accordance with the SEA's and LEAs' scopes of work, while balancing the need for accountability and transparency.

During the Year 4 review, the Department followed up on issues with adherence to cash management principles identified in previous reviews. As documented and previously referred to the Department's Risk Management Services (RMS), the State advances its LEAs an initial Race to the Top allocation using State General Funds at the beginning of each fiscal year. One week after the initial allocation in fiscal year 2014, the State drew funds from G5 reimbursing itself for outlays to the LEAs. Since the LEAs are not required to immediately expend the initial allocation, it is possible that some LEAs indirectly accrued interest on Race to the Top funds.

Additionally, during the Year 4 review, the Department documented one new issue that may require attention. As documented in the *Issues Pending* section, one LEA requested funds exceeding its expenditures, and since its funds reside in an interest bearing account, the Department determined that the LEA may accrue interest on Race to the Top funds. The State did not identify the LEA's failure to comply with federal cash management principals.

Summary of Monitoring Indicators

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Critical Element	Requirement	Citation	Results	Page
Allocations to LEAs	The State allocated funds to participating LEAs based on their relative share of funding under Title I, Part A of the Elementary and Secondary Education Act of 1965.	ARRA Section 14003(a)	Met Requirement	
Fiscal Oversight of Race to the Top Funds	The State and sub-recipients used the funds only for allowable activities.	ARRA Sections 14002(b), 14003, 14004, 1604, 1605, and 1606	Met Requirement	
	The State and sub-recipients complied with the principles of cash management (i.e. funds advanced were actually expended).	EDGAR § 80.21	Issue Resolved	5
	The State and sub-recipients have systems to track and account for Race to the Top funds in place.	EDGAR § 80.20	Met Requirement	
	The State and sub-recipients complied with cross-cutting ARRA requirements (e.g., Section 1512 reporting, Buy American, infrastructure certification).	ARRA Sections 1511, 1512, 1604, 1605, 1606, and 1607	Met Requirement	
	The State and sub-recipients used the funds only during the period of availability (which may include pre-award costs).	ARRA Section 1603 and GEPA 421(b)	Met Requirement	
1511 Certifications (if applicable)	The State certifies that infrastructure investments have received the full review and vetting required by law and accepts responsibility that it is an appropriate use of taxpayer dollars.	ARRA Section 1511	Met Requirement	
Quarterly ARRA Reporting	The State is ensuring compliance with ARRA Section 1512 quarterly reporting regulations.	ARRA Section 1512	Met Requirement	
	The State established clear policies and procedures for compliance with applicable reporting requirements.	ARRA Sections 14008 and 1512	Met Requirement	
	The State provided guidance on reporting to LEAs.	ARRA Sections 14008 and 1512	Met Requirement	
	The State provided feedback to LEAs on the data reported.	ARRA Sections 14008 and 1512	Met Requirement	

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Critical Element	Requirement	Citation	Results	Page
Sub-recipient Monitoring	The State has developed a monitoring plan with appropriate policies and procedures to assure compliance with applicable Federal requirements and that the grant performance goals are being achieved throughout the project period.	EDGAR §80.40; Race to the Top grant condition "O"	Met Requirement	
	The State has developed comprehensive monitoring protocols that include programmatic and fiscal monitoring.	EDGAR §80.40; Race to the Top grant condition "O"	Met Requirement	
	The State has established a reasonable monitoring schedule.	EDGAR §80.40; Race to the Top grant condition "O"	Met Requirement	
	The State has provided monitoring reports and corrective action follow-up (when available).	EDGAR §80.40; Race to the Top grant condition "O"	Met Requirement	

Monitoring Report Results

Description of Backup Documentation for Criteria

The evidence the State and LEAs submitted prior to and during the Year 4 review is consistent with the requirements in Attachment 2.

Outstanding Issues, Concerns, or Clarifications for Verification

During the Year 4 review, the Department followed up on issues with adherence to cash management principles identified in previous reviews. During the Year 3 review, the Department was not able to verify that the State was in compliance with Federal cash management requirements. During the review, each of the LEAs provided documentation indicating that the State advanced their initial allocations prior to any expenditure in fiscal year 2013. Of the three sample reports provided for the review, it appeared that two of the LEAs did not expend the advanced funds within three to five days of receiving them. Though the funds had not been spent at the local level, the State received reimbursement one week after advancing the funds to the LEAs.

Additionally, during the Year 3 review, the Department was not able to verify that LEAs are in compliance with Federal cash management requirements. Of three sample reports provided for the review, it appears that at least one LEA drew down more Race to the Top funds than it expended for immediate obligation; and, with documentation that the Race to the Top funds reside in an interest-bearing account at the local level, the Department determined that the LEA accrued interest on Race to the Top funds.

Because these issues identified during the Year 3 review affect other Departments programs, the ISU referred them to the Department's RMS. In March 2014, RMS concluded its review of ESE's policies and procedures for ensuring that LEAs comply with cash management requirements. After interviewing both ISU and ESE staff, RMS determined that the SEA is substantially in compliance with cash management principles and requirements. Based on documentation reviewed and subsequent validation of the State's drawdown and reimbursement procedures, it was inconclusive as to whether any Federal program funds disbursed to the LEA are deposited into interest-bearing accounts. The State stated that it does not restrict LEAs from depositing funds into interest-bearing accounts, but only "discourages" LEAs from holding more than \$250 of accrued interest on Federal funds in interest-bearing accounts. RMS emphasized that any interest accrued in excess of \$100 annually must be timely returned to the Treasury, and the State concurred.

In a conference call with State staff on March 4, 2014, RMS staff emphasized that funds should not be held in interest-bearing accounts and that the State must ensure that funds are only disbursed as needed for legitimate and approved expenditures approved by its LEAs. Specifically, the electronic form RF-1: Request for Funds was confirmed as the primary mechanism used by the State to ensure that each LEA justifies the need for making a funds request. It was further confirmed by the State that the "Maximum Cash Allowed on Hand" is monitored by the State and strictly adheres to the three to five-day window to expend funds. The SEA also confirmed that it uses a 30-day advance process to make an initial disbursement of newly awarded grant funds to its LEAs. LEAs must subsequently submit the RF-1 form on a monthly basis to request additional grant funds or more frequently if necessary and supported by the submission of additional appropriate information.

Consistent with RMS' recommendation, the ISU continued to monitor the State's adherence to cash management requirements during its Year 4 Race to the Top fiscal review. As in prior years, the State's

documentation showed that the State advances its LEAs an initial Race to the Top allocation using State General Funds at the beginning of each fiscal year. Of the three sample reports provided for the review, it appears that two of the LEAs did not expend the advanced funds within three to five days of receiving the funds. One week after the initial allocation in fiscal year 2014, the State drew funds from G5 reimbursing itself for outlays to the LEAs. Since the LEAs are not required to immediately expend the initial allocation, it is possible that some LEAs indirectly accrued interest on Race to the Top funds. Based on RMS' conclusion that the State is substantially in compliance with cash management requirements, no additional follow-up is needed.

Issue Resolved

Critical Element: Fiscal Oversight of Race to the Top Funds

Requirement and Citation: The State and its sub-recipients must comply with the principles of cash management; EDGAR 34 CFR § 80.21

Issue: During the Department's Year 4 onsite review of one LEA's fiscal documentation, the Department was not able to verify that it complied with Federal cash management requirements. It appears that the LEA drew down more Race to Top funds than it expended for immediate obligation; and, with documentation that Race to the Top funds reside in an interest bearing account at the local level, the Department determined the LEA accrued interest on Race to the Top funds.

Required Action: In order to resolve the above issue identified during the monitoring review, within 90 days the State must provide documentation demonstrating whether the LEA earned interest. If the State determines that the LEA earned interest in excess of \$100 annually, it must remit interest accrued.

Resolution: After the onsite review the State submitted documentation demonstrating that the LEA did not accrue interest in fiscal year 2013 on any Federal funds.