

**RACE TO THE TOP
FISCAL ACCOUNTABILITY AND OVERSIGHT REVIEW
NORTH CAROLINA**

Date of Review: April 2-5, 2012

Race to the Top award: \$399,465,769

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 82)

GEPA – General Education Provisions Act

ISU – Implementation and Support Unit

LEA – Local Educational Agency

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 subrecipients 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	4
	The State and subrecipients have systems to track and account for Race to the Top funds in place	EDGAR § 80.20	Met Requirement	
	The State and subrecipients 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 subrecipients used the funds only during the period of availability (which may include pre-award costs)	ARRA Section 1603 and GEPA 412(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 Sections 1511	Not Applicable	
Quarterly ARRA Reporting	The State is ensuring compliance with ARRA Section 1512 quarterly reporting regulations.	ARRA Sections 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	

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Critical Element	Requirement	Citation	Results	Page
	The State provided feedback to LEAs on the data reported.	ARRA Sections 14008 and 1512	Met Requirement	
Sub-recipient Monitoring	The State has developed a monitoring plan with appropriate policies and procedures	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”	Issue Resolved	4
	The State has established a reasonable monitoring schedule	EDGAR §80.40; Race to the Top grant condition “O”	Recommendation Implemented	5
	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	

Fiscal Monitoring Report Results

Issues Pending Resolution

Critical Element: Fiscal Oversight of Race to the Top Funds

Requirement and Citation: The State and sub-recipients complied with the principles of cash management.

Issue: The 2010 State Fiscal Stabilization Fund (SFSF) monitoring found that in an effort to expedite the distribution of funds to LEAs, the State distributed the funds to local educational agencies (LEAs) in a manner that had the potential to allow LEAs to accumulate interest on the SFSF funds. Subsequent to the SFSF monitoring review soon after the State received its Race to the Top award, North Carolina provided plans to resolve the issue identified during the SFSF review that applied to both programs.

At the time of the Year 2 Race to the Top on-site review, the State provided some evidence of progress implementing these plans, including increased opportunities for LEA to request funds and for the State to draw down funds. However, the State had not fully developed processes to make comparisons between cash requests and actual expenditures to monitor adherence to cash management rules. The Department indicated that the State needed to take corrective action in the form of providing a plan and timeline for a funds validation process to track and address the possible accumulation of funds.

Resolution: Between July 2012 and January 2013, the State submitted evidence of development of a procedure to monitor LEAs' adherence to cash management principles. An online cash management monitoring system will enable the State to monitor funds requested by LEAs with actual expenditures, notify LEAs with excessive cash balances, and take further action as needed to collect and remit interest. The State integrated these procedures into its sub-recipient monitoring plan available on the Department's website. Additionally, the State provided evidence of additional training to LEA finance officers and of instituting incentives for compliance (e.g., State Board of Education Award for Excellent in Financial Management). The Department will follow up on the implementation of the cash management monitoring system during the Year 3 program review.

Critical Element: Sub-Recipient Monitoring

Requirement and Citation: The State has established a reasonable monitoring schedule. EDGAR §80.40; Race to the Top grant condition "O."

Issue: The State submitted its Race to the Top sub-recipient monitoring plan in June 2011. At that time the State indicated that it planned to begin monitoring of LEAs in October 2011 and that LEAs would be sent notifications 30 days prior to any virtual or desk visits. During the Year 2 on-site review in April 2012, the Department learned that the State required LEAs to submit Progress Reports at the end of Year 1 and that the North Carolina Department of Public Instruction plans to determine additional monitoring of sub-recipients through desk and on-site reviews based on a review of the information included in the LEA Progress Reports. As of the on-site review, the State had identified 10 LEAs for on-site visits. However, an updated calendar including dates for on-site and desk reviews of LEAs had not yet been

developed. The Department indicated that the State needed to take corrective action in the form of providing an updated schedule.

Resolution: Subsequent to the review, the State submitted to the Department evidence of pilot monitoring for SY 2010-2011 LEA and charter school activities as well as a calendar for monitoring SY 2011-2012 activities. The State also provided updated protocols based on its initial implementation, which include the evidence of how the State plans to review to determine when follow up, including phone and face-to-face technical assistance and/or formal on-site visits, is needed based on the self-reported information in each LEA or charter school's annual Progress Report. The State's updated monitoring plan is posted on the Department's website.

Critical Element: Sub-recipient Monitoring

Requirement and Citation: The State has developed comprehensive monitoring protocols that include programmatic and fiscal monitoring. EDGAR §80.40; Race to the Top grant condition "O."

Recommendation: The State's sub-recipient monitoring plan makes reference to audits conducted by the Office of State Budget and Management's (OSBM) Internal Audit Office. The Internal Audit Office completed on-site visits to 28 LEAs and six charter schools participating in the Race to the Top grant between August 24, 2010 and September 30, 2011. The objective of these reviews was to determine if grant processes and transactions were in compliance with State and Federal laws, rules, regulations, contract requirements, and policies and procedures. The OSBM Internal Auditors reported a number of findings and included recommendations to the audited LEAs on actions to correct those findings. Findings of the OSBM Internal Auditors related to the competitive bidding and procurement requirements, review of the list of the debarred vendors and contractors, and inclusion of the ARRA required provisions in contracts.

During the on-site review the State noted that, due to a lack of resources, it has not yet followed up with the LEAs to ensure that appropriate corrective actions have been completed in response to the audit findings. The Department recommended that the State clarify the expectations of the Internal Audit Office within its sub-recipient monitoring plan, consider ways to integrate follow-up from the Internal Audit Office with reviews conducted by the North Carolina Department of Public Instruction, and communicate expectations to LEAs. If the State updates its sub-recipient monitoring plan, the updated plan should be submitted to the Department.

Response: Subsequent to the monitoring review, the State developed and shared with the Department a flow chart to differentiate the roles of DPI staff teams and OSBM teams. This flow chart addresses how the State plans to review compliance with programmatic (including overall Scope of Work as well as additional oversight for LEAs engaged with turning around lowest achieving schools activities), financial, and all State and federal requirements.