

Accountability and Oversight

RACE TO THE TOP FISCAL ACCOUNTABILITY AND OVERSIGHT REVIEW

North Carolina

Date of Review: April 15-18, 2013

Race to the Top award: \$399,465,769.00

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:

During the Year 3 review, the Department did not identify any new issues or concerns. The Department followed up on issues with adherence to cash management principles identified in previous reviews.

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	Met Requirement	3-4
	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	Not Applicable	
Quarterly ARRA Reporting	The State is ensuring compliance with ARRA Section 1512 quarterly reporting regulations.	ARRA Section 1512	Met Requirement	
	The State established clear	ARRA Sections	Met Requirement	

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Critical Element	Requirement	Citation	Results	Page
	policies and procedures for compliance with applicable reporting requirements.	14008 and 1512		
	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	
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"	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	

Description of Backup Documentation for Criteria

The documentation that North Carolina and its LEAs submitted, both prior, during, and following the review, are consistent with the requirements outlined in Attachment 2.

Outstanding Issues, Concerns, or Clarifications for Verification

The 2010 State Fiscal Stabilization Fund (SFSF) monitoring found that, in an effort to expedite distribution of funds LEAs, the State did not require funds to be requested on a reimbursement basis in a manner that had the potential for LEAs to have cash on hand exceeding SFSF expenditures. During the Year 2 Race to the Top onsite review, the State provided evidence of progress towards implementing plans to resolve the issue, including increased opportunities for LEAs to requests funds and for the State to draw down funds. Between July 2012 and January 2013, the State submitted evidence of a development of a procedure to monitor LEAs’ adherence to cash management principles through an online cash management monitoring system (CMMS).

During the Year 3 review, the Department learned that the State launched the CMMS on March 28, 2013 and received relevant clarification on the State’s G5 drawdown procedures. For State-level expenditures,

the State operates on a reimbursement basis, expending State funds prior to drawing down funds from G5. For LEA and charter school expenditures, the State operates on a cash advance basis: LEAs and charter schools request funds approximately three days ahead of the date the funds are required to meet expenditures. Funds for LEAs and charter schools are deposited into non-interest bearing accounts, and on a monthly basis LEAs and the State balance between requested funds and actual expenditures.

The CMMS produces reports comparing the date funds were received and the amount of funds expended within three days of receipt. Any funds not expended within three days are marked as “out of compliance” with the three-day rule to alert LEAs that these funds should be returned to balance its account based on actual expenditures. It is the Department’s understanding that the State (a) made the CMMS available to LEAs and that more than 80 were subscribed as of April 2013, (b) is developing formal procedures related to issues identified by the CMMS (e.g., when an LEA has funds exceeding a certain threshold at any point during the month), and (c) is planning to begin sending formal notifications of issues to LEAs on July 1, 2013.

We believe that the State has made significant efforts since the SFSF monitoring review to address cash management in its LEAs. LEAs participating in Race to the Top receive funds into non-interest bearing accounts and have additional opportunities to request funds to better align dispersals with actual expenditures. In addition, when the CMMS is available to all LEAs, it will address the excess cash on hand LEAs may have for up to a month between “zero-out” processes. During the Year 4 onsite review, the Department will review the implementation of the CMMS procedures at the State and LEA level.

Other Matters

Following the Year 3 onsite review in summer 2013 North Carolina indicated that notifications to LEAs from the CMMS did not begin on July 1. The Department is following up with the State regarding this matter and will have additional conversations prior to the Year 4 onsite review as necessary.