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SEP 30 2004

Control Number ED-OIG/A05-E0016

Elizabeth Burmaster  
State Superintendent  
Wisconsin Department of Public Instruction  
125 S. Webster Street  
Madison, Wisconsin 53702

Dear Ms. Burmaster:

This **Final Audit Report** presents the results of our audit of the Wisconsin Department of Public Instruction (DPI) and selected local education agencies (LEA). The objective of our audit was to determine whether DPI and selected LEAs complied with the maintenance of effort and supplement not supplant requirements of the Elementary and Secondary Education Act of 1965 (ESEA), Title I, Part A program, as amended by the No Child Left Behind Act of 2001, for the period July 1, 2003, through June 30, 2004 (2003-2004 school year). Because there are no findings that require resolution, you are not required to respond to this audit report.

## AUDIT RESULTS

DPI generally complied with the law and applicable regulations governing maintenance of effort for the 2003-2004 school year. Using annual report data received from the LEAs, DPI correctly and accurately calculated maintenance of effort for the LEAs and took appropriate action when an LEA failed to meet the federal requirements.

DPI and the six selected LEAs generally complied with the federal regulations governing supplement not supplant for the 2003-2004 school year. To make this determination, we reviewed all Title I expenditures for administrative personnel at DPI and the six LEAs. We also reviewed expenditures for all teaching personnel at 5 of 6 LEAs and teaching personnel at 15 of 151 schools at the sixth LEA.

## OTHER MATTER

DPI might have a major control weakness in its audit coverage. DPI relies on the work of Certified Public Accountants (CPAs) to report LEAs' non-compliance with supplement not supplant requirements. We reviewed the CPAs' work papers supporting their Office of Management and Budget (OMB) Circular A-133 audit reports for the six selected LEAs. Our review disclosed that four of six CPAs did not complete any supplement not supplant testing even though the Title I program was selected as a major program for the 2002-03 year. At the exit conference, DPI officials said they would provide additional supplement not supplant training for the CPAs. We also suggest that DPI consider establishing a procedure to review, on a sample basis, CPAs' work related to supplement not supplant.

## BACKGROUND

DPI oversees public education in Wisconsin. Wisconsin enrolls 879,361 students in 426 public school districts, 2 residential schools, Department of Corrections' and Department of Health and Family Services' facilities, charter schools, and its County Children with Disability Education Boards. DPI relies on LEAs to administer the elementary and secondary education programs.

The Title I program is authorized under the ESEA, as amended by the No Child Left Behind Act of 2001, Public Law 107-110. According to § 1120A of the ESEA, an LEA may receive Title I funds only if the state educational agency (SEA) determines that the LEA has maintained the fiscal effort as required by § 9521. The SEA must determine that either the combined fiscal effort per student or the aggregate expenditures of the LEA and the State with respect to the provision of free public education by the LEA for the preceding fiscal year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding fiscal year. If the LEA fails to meet the 90 percent requirement for both the combined fiscal effort per student and the aggregate expenditures in any fiscal year, the SEA must reduce the amount of funds allocated under a Title I program in the exact proportion by which an LEA fails to meet the 90 percent requirement.

According to § 1120A (b)(1) of the ESEA, SEAs and LEAs must use federal funds received under Title I only to supplement the amount of funds available from non-federal sources for the education of students participating in Title I. The SEA and LEA cannot use these federal funds to supplant funds that would, in the absence of Title I funds, have been spent on Title I students. The supplement not supplant requirement, as it applies to a school operating a school-wide program, requires the school to use Title I, Part A funds and other Federal education program funds included in the school-wide program only to supplement the total amount of funds that would, in the absence of the Federal funds, be made available from non-Federal sources for the school, including funds needed to provide services that are required by law for children with disabilities and children with limited-English proficiency.

For the 2003-2004 school year, Wisconsin was authorized \$ 151,746,825 in Title I funds. Of this amount, DPI allocated \$145,646,915 to 393 LEAs. The 6 LEAs that we audited received \$63,069,890 in Title I funds. (See Table 1.)

Table 1

District	Name	Allocation
6118	Waterloo School District	\$67,164
3612	Milton School District	\$173,584
1638	Elkhorn Area School District	\$286,831
2695	Janesville School District	\$997,564
0413	Beloit School District	\$2,046,751
3619	Milwaukee Public Schools	\$59,497,996
	<b>Total</b>	<b>\$63,069,890</b>

### OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine whether DPI and selected LEAs complied with maintenance of effort and supplement not supplant requirements of the ESEA, Title I, Part A, program, as amended by the No Child Left Behind Act of 2001, for the period July 1, 2003, through June 30, 2004.

To achieve our audit objective, we

1. selected a sample of 6 LEAs from a universe of 393 Wisconsin LEAs obtained from DPI officials. To select our sample, we (1) stratified the universe into 3 strata (large, medium, and small) based on the amount of Title I funds received, (2) generated random numbers for each stratum, and (3) selected the first 2 LEAs from each stratum that were located in the southeast section of Wisconsin<sup>1</sup>;
2. gained a limited understanding of DPI's and selected LEAs' internal control structure, policies, procedures, and practices applicable to maintenance of effort and supplement not supplant for the Title I program by (1) reviewing the latest A-133 audit reports and related work papers, (2) interviewing DPI and LEA officials, and (3) interviewing Wisconsin Legislative Audit Bureau officials and the LEAs' CPAs;
3. obtained DPI's maintenance of effort calculations for FY 2002, 2003, and 2004 and tested the calculations to ensure DPI used accurate data and the calculations were correctly calculated and accurate;
4. reviewed the selected LEAs' accounting records to ensure the 2001, 2002, and 2003 maintenance of effort data reported to DPI were correct and reported accurately; and

<sup>1</sup> We limited our selection of those LEAs located in the southeast section of Wisconsin because it has the highest population.

5. compared DPI's and the LEAs' employees' 2004 Title I salaries recorded in accounting and payroll records to 2002 and 2003 accounting and payroll records to determine if Title I funds were used to supplement not supplant state and local funds.

We also relied, in part, on computer-processed data from DPI's Oracle database and the State's payroll system. In addition, we relied on the LEAs' annual report and Title I revenue and expenditure reports. The LEAs entered the annual report data into DPI's Oracle database on its client-server based system. DPI used the data to calculate the LEAs' maintenance of effort calculation. To determine whether the computer-processed data were reliable, we first gained a limited understanding of DPI's and the LEAs' related computer system controls; recalculated the maintenance of effort calculation for 2002, 2003, and 2004; and identified the accounts in the Oracle database that DPI used to make the calculations. Also, we selected a sample of data from DPI and each LEA, and applied logic tests. We tested for (1) missing data, (2) the relationship of one data element to another, (3) values outside of a designated range, and (4) dates outside valid time frames or in an illogical progression. Based on our limited understanding of system controls and our logic tests, we concluded that the computer-processed data that DPI and the six LEAs provided were sufficiently reliable for the purposes of our audit.

We conducted our audit work from March 4, 2004, through July 23, 2004. As part of our audit, we visited DPI's offices in Madison, Wisconsin, and all six LEAs — School District of Janesville, School District of Milton, School District of Beloit, Milwaukee Public Schools, Elkhorn Area School District, and Waterloo School District. We held an exit conference with DPI officials on July 29, 2004.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of the audit described above.

#### STATEMENT ON INTERNAL CONTROLS

As part of our audit, we did not assess the adequacy of the internal control structure of DPI and the six selected LEAs because such assessments were not necessary to achieve our audit objective. Instead, we obtained an understanding of the processes DPI and the LEAs used to comply with maintenance of effort and supplement not supplant requirements and determined whether the processes were in compliance with the applicable law and regulations. Our work did not disclose any instances of non-compliance with applicable law and regulations. However, DPI might have a major control weakness by relying on the work of CPAs to report LEAs' non-compliance with supplement not supplant requirements. This weakness is discussed in the **"OTHER MATTER"** section of this report.

**ADMINISTRATIVE MATTERS**

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to the exemptions in the Act.

We appreciate the cooperation and assistance extended by your staff during the audit. If you have any questions, please contact me at 312-886-6503.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard J. Dowd", with a large, stylized flourish extending to the left.

Richard J. Dowd  
Regional Inspector General  
for Audit