U.S. Department of Education
Office of Inspector General

American Recovery and Reinvestment Act of 2009

State of Wisconsin American Recovery and Reinvestment Act of 2009
Use of Funds and Reporting

Final Audit Report

Wisconsin State Capitol

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ED-OIG/A02K0005 **September 2010**

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

AUDIT SERVICES
REGION II

September 29, 2010

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Dear Dr. Evers and Mr. Patton:

This final audit report presents the results of our review of the State of Wisconsin American Recovery and Reinvestment Act of 2009 Use of Funds and Reporting.

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit:

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It is the policy of the U.S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within **30 days** would be appreciated.

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 exemptions in the Act.

Sincerely,

/s/

Daniel P. Schultz
Regional Inspector General for Audit

Abbreviations and Acronyms Used in this Report

AEFLA	Adult Education and Family Literacy Act
ARRA	American Recovery and Reinvestment Act of 2009
CFDA	Catalog of Federal Domestic Assistance
C.F.R.	Code of Federal Regulations
DOC	Wisconsin's Department of Corrections
DOR	Wisconsin's Department of Revenue
DPI	Wisconsin's Department of Public Instruction
DUNS	Data Universal Numbering System
ED	U.S. Department of Education
ESEA	Elementary and Secondary Education Act of 1965
ES	Education Stabilization
GS	Government Services
IDEA	Individuals with Disabilities Education Act Part B Grants to States
IPA	Independent Public Accountant
LEA	Local Educational Agency
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORR	Wisconsin Governor's Office of Recovery and Reinvestment

SFSF	State Fiscal Stabilization Fund
Title I	Title I, Part A of the Elementary and Secondary Education Act of 1965
WI	State of Wisconsin
WiSMART	Wisconsin's State Financial System
WUFAR	Wisconsin Uniform Financial Accounting Requirement

**State of Wisconsin American Recovery and Reinvestment Act of 2009
Use of Funds and Reporting**

Control Number ED-OIG/A02K0005

PURPOSE

The American Recovery and Reinvestment Act of 2009 (ARRA) places a heavy emphasis on accountability and transparency, and in doing so, increases the responsibilities of the agencies that are impacted by ARRA. Overall, the U.S. Department of Education (ED) is responsible for ensuring that education-related ARRA funds reach intended recipients and achieve intended results. This includes effectively implementing and controlling funds at the Federal level, effectively ensuring that recipients understand requirements and have proper controls in place over the administration and reporting of ARRA funds, and promptly identifying and mitigating instances of fraud, waste, and abuse of the funds.

The purpose of our audit was to determine whether the State of Wisconsin (WI): (1) used ARRA funds in accordance with applicable laws, regulations, and guidance; and (2) reported data that were accurate, reliable, complete, and in compliance with ARRA reporting requirements. This report provides the results of the audit we conducted at the WI Department of Public Instruction (DPI) and the WI Governor's Office. We focused our audit on State-level use of funds, and data quality related to Title I, Part A of the Elementary and Secondary Education Act of 1965 (Title I); Individuals with Disabilities Education Act, Part B, Special Education Grants to States (IDEA); and State Fiscal Stabilization Fund (SFSF) funds received through ARRA.

RESULTS

DPI made a proactive effort to ensure compliance with ARRA requirements for Title I and IDEA, such as distributing timely information to assist local educational agencies (LEAs) in understanding their ARRA responsibilities. However, we determined that DPI and the WI Governor's Office did not perform sufficient procedures to provide reasonable assurance that ARRA funds were used in accordance with applicable laws, regulations, and guidance.

Specifically, SFSF funds for Education Stabilization (ES) and Government Services (GS) were not adequately tracked at the State and LEA level. This was due to the Legislative directives approved by the WI Governor leading up to the distribution of SFSF funds and inadequate instructions from DPI to LEAs in accounting for and tracking SFSF funds. The WI Legislature and the WI Governor's Office instructed DPI to distribute SFSF funds to LEAs expeditiously to fill the shortage in State General Aid to LEAs.[1] In doing so, DPI did not properly account for the two components of the SFSF program,[2] and it reimbursed LEAs for expenditures based only

[1]On May 11, 2009, the WI Legislative Fiscal Bureau reduced fiscal year (FY) 2008-2009 income tax collection estimates by $408 million. As a result, there was a shortage of funds for State General Aid. WI needed to apply its SFSF funds to offset the reductions in State General Aid resulting from the large FY 2008-2009 shortfall. It was not until June 11, 2009, that SFSF GS funds were appropriated to offset reductions in State General Aid.
[2]The two components of the SFSF program are ES with a Catalog of Federal Domestic Assistance (CFDA) number of 84.394 and GS with a CFDA number of 84.397.

on pools of cost categories without advising LEAs that the SFSF ES and GS funds included in the payment must be tracked separately. Therefore, the WI Governor's Office and DPI did not properly account for and track the use of SFSF funds at both the State and LEA level in accordance with ARRA requirements.

In addition, DPI needs to improve its monitoring over Title I, IDEA, and SFSF ARRA funds. We found that DPI needs to improve its current procedures to incorporate risk-based fiscal monitoring for Title I and IDEA. DPI also should implement comprehensive subrecipient monitoring procedures for the SFSF program based on risk.

Finally, we found that WI generally reported data for its Title I, IDEA, and SFSF programs that were accurate, reliable, complete, and in compliance with ARRA reporting requirements except for the issues identified in Finding No. 3 related to jobs data. We determined that DPI and the WI Governor's Office need to improve their procedures to ensure certain ARRA § 1512 (§ 1512) data are accurate, reliable, and complete. We also identified certain isolated issues related to § 1512 data. Although these issues did not warrant inclusion in the Finding sections, we included them in the "Other Matters" section of this report.

We provided a copy of our draft audit report to DPI and the WI Governor's Office of Recovery and Reinvestment (ORR) [3] for review and comment on July 19, 2010. In DPI's and ORR's comments dated July 30, 2010, DPI and ORR did not fully agree or disagree with our findings and recommendations. Based on their comments, we modified Finding No. 1 to clarify language used to describe DPI's role in the process of allocating and distributing SFSF funds. DPI's and ORR's comments are summarized at the end of each finding. The entire narrative of DPI's and ORR's comments is included as Attachment 1 to this report.

BACKGROUND

ARRA was signed into law on February 17, 2009, in an unprecedented effort to jumpstart the American economy. ARRA has three immediate goals: (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster unprecedented levels of accountability and transparency in government spending. To ensure transparency and accountability of ARRA spending, recipients are required under § 1512 to submit quarterly reports on ARRA awards, spending, and jobs impact. According to the Office of Management and Budget (OMB), the reports, which contain specific detailed information on the projects and activities funded by ARRA, will provide the public with an unprecedented level of transparency into how Federal dollars are being spent. They will also help drive accountability for the timely, prudent, and effective spending of the ARRA funds.

WI is expected to receive more than $1.2 billion in Title I, IDEA, and SFSF ARRA funds. As of December 31, 2009, WI had drawn down more than $662 million of these ARRA funds. Table 1 below shows the amount of funds awarded and drawn down by DPI and the WI Governor's Office as of December 31, 2009. Data are restricted to funds related to the Title I, IDEA, and SFSF programs as the audit scope is limited to the review of these programs.

[3] On January 23, 2009, the Governor of WI created ORR in Executive Order 274. ORR is responsible for administering and ensuring compliance with ARRA.

Table 1: ARRA Funding for Selected Programs in WI, as of December 31, 2009			
PROGRAM	**AWARDED**	**DRAWDOWNS**	**PERCENT OF AWARD DRAWN (%)**
SFSF Education Stabilization	$717,336,999	$480,615,789	67.0
SFSF Government Services	$159,603,097	$159,602,311	99.9
SFSF Subtotal	**$876,940,096**	**$640,218,100**	**73.0**
Title I	$147,729,443	$3,158,326	2.1
IDEA	$208,200,108	$19,076,305	9.2
TOTAL	**$1,232,869,647**	**$662,452,731**	**53.7**

The WI Governor's Office was allocated about $877 million in SFSF funds, of which 73 percent or approximately $640 million was drawn down (see Table 1). About $481 million and $160 million in SFSF ES funds and SFSF GS funds were drawn down, respectively. The WI Governor's Office disbursed the SFSF GS funds to three WI State agencies: WI Department of Revenue (DOR), WI Department of Corrections (DOC), and DPI (see Table 2). DPI disbursed $71,662,211 of the SFSF GS funds to its 426 LEAs.[4]

Table 2: WI Governor's Office Total of SFSF Government Services Drawdowns	
WI AGENCY RECEIVING SFSF-GS FUNDS	**AMOUNT DRAWN DOWN**
Department of Revenue	$76,139,100
Department of Correction	$11,801,000
Department of Public Instruction	$71,662,211
TOTAL	**$159,602,311**

FINDINGS

FINDING NO. 1 – SFSF ES and GS Funds Were Not Adequately Tracked

SFSF funds were not adequately tracked at both the State and LEA levels. This was caused by the timing of WI Legislative decisions leading up to the distribution of SFSF ES and GS funds to LEAs, which were approved by WI's Governor, and lack of instructions from DPI to LEAs on how to account for SFSF funds with specific expenditures. The WI Legislature and the WI Governor's Office instructed DPI to award and to distribute both SFSF ES and GS funds within a short time frame using the general equalization aid formula[5] to fill the shortage in State General Aid for LEAs.[6] DPI was directed on May 15, 2009, to use its SFSF ES allocation to fill the shortage in State General Aid for LEAs.[7] However, the appropriation for GS and additional ES funds occurred on June 11, 2009, just one business day prior to the June 15, 2009, State General

[4]Our audit focused on SFSF funds that went to LEAs through DPI because they totaled approximately 86 percent of all SFSF funds.
[5]The general equalization formula is WI's primary elementary and secondary education funding formula.
[6]State General Aid is State aid that is not limited to any specific program, purpose, or target population but may be used in financing the general educational program as desired by the recipient district.
[7] On May 15, 2009, WI Legislation appropriated $291,000,000 of SFSF ES to be used in the June 15, 2009 State General Aid payment to LEAs. DPI created account code 810, on May 20, 2009, to track SFSF ES expenditures.

Aid payment, which was statutorily required by the WI Legislature.[8] As a result, although DPI recorded combined SFSF allocations for LEAs in WiSMART (WI State Financial System), DPI indicated that it did not have sufficient time to record allocations for ES and GS funds separately for each LEA. In addition, DPI did not notify LEAs that the June 15, 2009, State General Aid payment, included both ES and GS until September 2009. Therefore, LEAs may not be able to trace ES and GS funds to specific actual expenditures.

According to ED's *Guidance on the State Fiscal Stabilization Fund Program* dated April 2009, (Part VII-4), "For each year of the Stabilization program, the State must submit to the Department a report that describes: The uses of funds within the State . . . ." In addition, it states that (Part III-D-15):

> An LEA may use its Education Stabilization funds for any activities authorized under [Elementary and Secondary Education Act of 1965] ESEA, the IDEA, the [Adult Education and Family Literacy Act] AEFLA, or the Perkins Act . . . . The LEA must maintain records that track separately the specific uses of the funds.

State-level Tracking

DPI did not adequately track SFSF ES and GS funds. DPI awarded and disbursed the SFSF ES and GS funds to LEAs under one account code on June 15, 2009. On June 12, 2009, DPI made only one adjusting entry in WiSMART to transfer the total SFSF GS funds for all LEAs from the account that recorded the initial combined SFSF payment. To account for the amounts awarded to each LEA for SFSF ES and GS under two separate CFDA numbers, DPI divided the total SFSF funds awarded to each LEA—87 percent was attributed to ES funds and 13 percent was attributed to GS funds. DPI recorded these amounts outside of the WiSMART system in a Microsoft Excel spreadsheet. However, we noted for 29 LEAs that the June 15th payments recorded in WiSMART did not match the combined SFSF award amount recorded in the Microsoft Excel spreadsheet. The award amounts recorded on the Microsoft Excel spreadsheet were the amounts reported to FederalReporting.gov. DPI's senior accountant stated the difference in the payments to these 29 LEAs was due to adjustments related to the State equalization aid, special aid, and open enrollment aid.[9] Therefore, DPI was not able to adequately track the disbursement of SFSF ES and GS funds separately.

LEA-level Tracking

LEAs may not be able to trace ES and GS funds to specific actual expenditures. When LEAs received SFSF funds in the June 2009 State General Aid payment, LEAs had already incurred expenses that they expected to be reimbursed with State General Aid. DPI did not require LEAs to account for SFSF to specific expenditures and did not notify LEAs about how much of their

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[8]On June 11, 2009, WI Legislation appropriated $261,278,000, of which $71,662,211 was for SFSF GS funds and $189,615,689 was for SFSF ES funds. Both SFSF ES and GS were used in the June 15, 2009 State General Aid payments to LEAs. Although DPI created account code 811 on June 12, 2009 to track total SFSF GS expenditures, it did not record specific LEA allocations and payments for GS to this code.

[9]WI's public school open enrollment program allows students to attend school districts other than the one in which they live. Open enrollment aid is calculated based on the number of students in the open enrollment program. State equalization aid is also calculated using the number of students in the district. The State equalization aid, special aid, and open enrollment aid are included in the payments for State General Aid. Therefore, changes in the student population within a district resulted in adjustments impacting the June 15, 2009, State General Aid payment.

SFSF funds were ES and how much were GS until September 2009. However, this notification was based on the award amounts recorded outside WiSMART and not the actual payment amount recorded in WiSMART. According to DPI officials, it was not the normal course of business for DPI to notify the LEAs to separately track funds in the State General Aid payments. DPI's acting director of School Financial Services Team stated that DPI did not know exactly when LEAs incurred the expenditures but that the expenditures were incurred during State FY 2008-2009 (July 1, 2008, through June 30, 2009). As a result, LEAs, in particular the 29 LEAs mentioned under State-level Tracking, may not be able to track ES and GS funds to actual expenditures.

DPI's School Financial Services Team performed an analysis to provide assurance that each LEA had sufficient expenditures to account for SFSF funds in accordance with ARRA requirements. The acting director stated that most of the expenditures were for salaries and benefits. However, LEAs applied blocks of expenditures to SFSF based only on pools of cost categories, instead of separately accounting for specific expenditures. Therefore, LEAs may not be able to trace SFSF ES and GS funds to actual expenditures.[10] This could significantly impact the reliability of the sub-vendor information reported by LEAs for SFSF funds. If LEAs cannot trace SFSF funds to actual expenditures, the LEAs will not be able to identify associated vendor information as required by § 1512.

According to DPI officials, DPI originally was not aware that it needed to account for and track the two components of SFSF (ES and GS) funds separately. LEAs were going to experience a severe shortfall in State General Aid for the FY 2008-2009. DPI was directed by WI Legislature and the WI Governor's Office to work quickly to include the SFSF funds in the June 15, 2009, State General Aid payment to offset the budgetary shortfall for the LEAs. However, because of time constraints, they did so without verifying whether the LEAs had enough actual expenditures allowable under the SFSF program.

DPI did perform an after-the-fact analysis in February 2010 based on pools of cost categories to try to estimate whether each LEA had enough allowable expenditures to which SFSF funds could be applied. The analysis consisted of a calculation that started with each LEA's expenditures for FY 2008-2009 and then deducted pools of cost categories that were unallowable under the SFSF program, such as maintenance and vehicle acquisition, to arrive at the "General Fund Expenditures with Adjustments" for each LEA. The "General Fund Expenditures with Adjustments" was prorated for the period of availability[11] under the assumption that expenses were incurred by the LEAs at a uniform daily average over the entire year. DPI's monitoring strategy relied on the expectation that the Independent Public Accountant (IPA) would audit SFSF funds when single audits were performed. We note that this expectation is not reasonable, because at certain LEAs the IPAs did not review SFSF funds because they either did not have the audit guide in time or did not document the work that they performed.

However, DPI's analysis was not adequate to ensure LEAs had incurred enough allowable expenditures within the period of availability for its SFSF funds because the calculation (1) was

[10] We currently are reviewing expenditures in more detail at one LEA, Milwaukee Public Schools, and plan to report the results in a separate report.
[11] The period of availability for SFSF funds began March 23, 2009.

based on categories of expenditures that were not always verified by the IPA[12] and (2) used a prorated amount based on a daily uniform average instead of actual expenditures incurred during the period of availability. At the time DPI performed the analysis, information about the actual expenditures charged to SFSF was available through the LEAs. Had DPI used actual expenditure data during its after-the-fact analysis instead of a uniform daily average over the entire year, it may have obtained reasonable assurance that ARRA funds were used in accordance with applicable laws, regulations, and guidance.

For the remainder of its SFSF funds, DPI plans to require the submission of grant applications and claim forms from LEAs. However, as a result of circumstances described above surrounding the distribution of SFSF funds, the WI Governor's Office and DPI did not comply with requirements regarding transparency, reporting, and accountability expected for ARRA funds. Because the WI Governor's Office and DPI did not properly account for and track SFSF ES and GS funds, there is insufficient assurance that the SFSF funds were used for allowable purposes and incurred within the period of availability.

Recommendations

We recommend the Assistant Secretary for Elementary and Secondary Education require the WI Governor's Office and DPI to —

1.1 Implement procedures to ensure its remaining SFSF ES and GS funds are properly and separately accounted for and tracked.

1.2 Conduct reviews based on risk associated with LEAs that received SFSF funds in FY 2008-2009 to determine whether the funds were used for allowable activities and incurred within the period of availability, and return to ED any unallowable costs.

1.3 Reconcile, for the 29 LEAs mentioned in this finding, the difference between the payments amounts recorded in WiSMART and the award amounts recorded in the Microsoft Excel spreadsheet.

DPI and ORR Comments

DPI and ORR stated that it did not believe the report accurately depicted DPI's role in the allocation and distribution of SFSF and could lead the reader to inaccurate conclusions. DPI stated that many of the decisions relating to the administration of the SFSF program were outside DPI's control. According to DPI and ORR, the Wisconsin Legislature passed the 2009 Wisconsin Act 23, which appropriated SFSF ES and GS funds on June 11, 2009. Enactment of this legislation occurred one business day prior to the release of $1.6 billion in State general aid, which was statutorily required by the State. The 2009 Wisconsin Act 23, combined with the 2009 Wisconsin Act 11 enacted on May 15, allocated $552.3 million in SFSF to replace an equivalent amount of State funding.

DPI and ORR stated that because of this timing, DPI had to conduct an after-the-fact analysis on LEA expenditures. According to DPI and ORR, approximately 30 percent of the school year

[12]For more information on this, see Finding No. 2.

remained between March 23 and the end of the school year. In addition, the $552.3 million in SFSF distributed to LEAs in FY 2008-2009 accounted for approximately 5.8 percent of total non-Federal LEA expenditures for that fiscal year. Based on this, DPI is confident that enough allowable expenditures existed within the period of eligibility.

Furthermore, on May 21, 2009, ED informed DPI and the WI Budget Office that they could apply SFSF funds to expenditures dating back to March 23, 2009, as long as assurances were signed by LEAs. DPI understood this to mean that ED did not require the claim process to proactively track funds to specific expenditures.

DPI and ORR concurred with Recommendation 1.1 and stated that they had implemented appropriate procedures to ensure its remaining SFSF ES and GS funds are properly and separately accounted for and tracked. However, DPI did not agree with Recommendation 1.2 because they believe it suggests that DPI's review process was not sufficient. DPI and ORR stated that performing a review now would be unnecessary because no new information is available and there is no evidence of unallowable costs.

Office of Inspector General (OIG) Response

Based on DPI's and ORR's comments, we modified Finding No. 1 and Recommendation 1.2. We also added Recommendation 1.3. We acknowledge that the circumstances under which SFSF funds were appropriated for FY 2008-2009 created difficulties in the administration of the funds. However, our conclusion that the administration of SFSF for FY 2008-2009 did not allow for proper tracking remains unchanged.

With ARRA's heavy emphasis on accountability and transparency, we maintain that DPI did not adequately track SFSF ES and GS funds at the State level. Specifically, we noted that for 29 LEAs, the amounts awarded did not match the actual payment amounts.

We also maintain that DPI's after-the-fact analysis was not adequate to ensure LEAs had incurred enough allowable expenditures within the period of availability for its SFSF funds. The analysis was inadequate because the calculation: (1) was based on categories of expenditures that were not always verified by the IPA and (2) used a prorated amount based on a daily uniform average instead of actual expenditures incurred during the period of availability. In addition, this analysis was based on the amounts awarded to LEAs instead of the actual payments made to LEAs using SFSF ES and GS funds. Further, based on the nature of the analysis, and the fact that DPI did not inform LEAs that the ES and GS needed to be tracked separately, DPI could not be reasonably assured that LEAs properly accounted for SFSF ES funds separately from SFSF GS funds. As a result, the WI Governor's Office and DPI did not have reasonable assurance that the SFSF funds were used for allowable purposes and incurred within the period of availability or adequately tracked by LEAs. Although DPI and WI's Budget Office obtained approval from ED to apply SFSF funds to expenditures dating back to March 23, 2009; our finding remains unchanged as the WI Governor's Office and DPI did not comply with requirements regarding transparency, reporting, and accountability expected for ARRA funds.

FINDING NO. 2 – DPI Needs to Improve its Fiscal Monitoring Over ARRA Funds

DPI's program officials provided extensive ARRA guidance and technical assistance to LEAs through webinars and "frequently asked questions" and "late breaking information" posted to DPI's Economic Recovery and Reinvestment Web site.[13] However, DPI did not perform sufficient monitoring of expenditures to ensure LEAs complied with Federal fiscal requirements related to use of and accounting for ARRA Title I and IDEA funds. In addition, DPI had not established subrecipient monitoring procedures for SFSF funds disbursed to LEAs.

34 Code of Federal Regulations (C.F.R.) Part 80 addresses the State educational agency role in monitoring subrecipients. According to 34 C.F.R. § 80.40(a),[14]

> Grantees are responsible for managing the day-to-day operations of grant and subgrant supported activities. Grantees must monitor grant and subgrant supported activities to assure compliance with applicable Federal requirements and that performance goals are being achieved. Grantee monitoring must cover each program, function or activity.

Furthermore, ED issued additional guidance on December 24, 2009, in response to questions received from some auditors performing single audits. It is specifically geared to clarifying matters in light of the auditors' questions on recordkeeping, documentation, and reporting. ED's *Guidance for Grantees and Auditors on State Fiscal Stabilization Fund Program* dated December 24, 2009, stated:

> Because of the unique characteristics of this program . . . while the specific requirements in the OMB Circulars that apply cost principles, such as, OMB Circulars A-21 and A-87, do not apply to SFSF funds, expenditures attributed to the SFSF program must still be "reasonable and necessary," and consistent with applicable State and local requirements.

DPI's monitoring of LEA expenditures included reliance on the single audits conducted by IPAs. DPI's School Finance and Management Services Team provided oversight to 35 audit firms hired by LEAs to perform single audits.[15] However, single audits are not performed until well after the funds are expended. DPI required the IPAs to complete the audits by the first of December each year; and DPI's Financial Services Team officials reviewed the audits in January and February. We also determined that not all IPAs performed testing on LEA SFSF expenditures for the FY 2008-2009 single audits.

DPI did not have sufficient policies and procedures for fiscal monitoring, such as risk-based monitoring, to ensure LEAs complied with Federal fiscal requirements related to use of and accounting for ARRA Title I and IDEA funds. According to the DPI's School Management Services Team accountants for the Federal Aids and Audit Section, DPI did not conduct monitoring of actual expenditures claimed for reimbursement on Form PI-1086 to determine

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[13]There were "frequently asked questions" on DPI's Web site for the Title I and IDEA programs that explain the guidelines for ARRA use of funds and data reporting in a question and answer format.
[14]This regulatory citation is to the July 1, 2009, volume.
[15]DPI's oversight includes continuous correspondence (phone calls, e-mails, updates to the Web site, and list serve messages), as well as a conference for the IPAs where DPI provides coverage of single audits of Federal programs and updates on WI programs.

whether expenditures were supported and allowable under Title I and IDEA.[16] In addition, DPI did not conduct sufficient onsite fiscal monitoring that included adequate procedures to ensure LEAs complied with Federal fiscal requirements related to LEAs' use of and accounting for ARRA Title I and IDEA funds. Although DPI's onsite monitoring protocol included a section covering fiduciary responsibility for Title I, it required only one example documenting how expenditures for Title I were directly related to the approved budget and the ESEA Consolidated Program Plan. This may not be sufficient fiscal monitoring to provide reasonable assurance that ARRA expenditures were allowable. Using a risk-based strategy to identify LEAs for fiscal monitoring would allow DPI to concentrate its time and effort on verifying and ensuring that expenditures were allowable and supported at those LEAs it designates as higher risk.[17]

Furthermore, DPI did not require LEAs to submit claim forms for more than $552 million in SFSF funds that it distributed to them.[18] SFSF funds were distributed to LEAs as part of their June 15, 2009, payment for State General Aid. These funds were not subject to the same internal controls as other Federal funds administered by DPI. This may further increase the risk of funds being spent inappropriately. Because some IPAs did not include the SFSF program in their LEA single audits for FY 2008-2009, some of these funds remain unaudited.

As a result of DPI's insufficient fiscal monitoring, coupled with the current economic climate and resulting budget constraints, the risk may increase that LEAs will charge unallowed or unsupported expenditures to ARRA grants and retain cash advances by requesting payment for expenditures that have not been incurred. Without proper fiscal monitoring, payments for unallowable LEA expenditures may go unnoticed. Audits that occur well after payments are disbursed to the LEAs are performed too late to ensure early detection of the inappropriate use of funds.

DPI officials stated that DPI had begun to implement OIG's recommendations by identifying a number of high-risk school districts and requiring expenditure documentations from these school districts prior to payment.

Recommendations

We recommend the Assistant Secretary for Elementary and Secondary Education in conjunction with the Assistant Secretary for Special Education and Rehabilitative Services require DPI to ─

2.1 Incorporate into its current procedures risk-based fiscal monitoring and timely oversight of LEA compliance with fiscal requirements related to the appropriate use of and accounting for Title I and IDEA ARRA funds.

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[16] DPI required LEAs to prepare and submit Form PI-1086 to receive reimbursement for grants. The Form PI-1086 contained a specific grant number, the approved budget, total disbursements, unencumbered balances, and amount requested for the particular claim.

[17] A risk-based monitoring strategy is a process that uses indicators to assess the relative risk that an LEA will fail to properly carry out administrative requirements and programmatic activities.

[18] As stated in Finding No. 1, the LEAs already incurred expenses that they expected to be reimbursed with the SFSF funds.

We recommend the Assistant Secretary for Elementary and Secondary Education require the WI Governor's Office to require DPI to ─

2.2 Implement comprehensive subrecipient monitoring procedures based on risk to ensure timely and adequate oversight of LEAs' administration and use of SFSF funds consistent with ED guidance.

DPI and ORR Comments

DPI and ORR did not concur with this finding in its entirety but did indicate that it concurred with and implemented the two associated recommendations. DPI stated that it had well established fiscal monitoring procedures in place prior to the awarding of ARRA funds. DPI's fiscal monitoring procedure consisted of: (1) on-site monitoring visits conducted annually for Title I; (2) the Wisconsin Uniform Financial Accounting Requirement (WUFAR) system, which allows DPI and LEAs to track funding sources and identify expenditures associated with funding sources; (3) approved grant applications, which were required before ARRA funds were distributed to an LEA; and (4) site visits to the LEA's IPAs.

OIG Response

We acknowledge that DPI had fiscal monitoring procedures in place prior to ARRA. In response to DPI's and ORR's comments, we revised language in the report to clarify that DPI had fiscal monitoring procedures, but we do not believe they were sufficient to provide adequate fiscal monitoring over actual ARRA expenditures. To help ensure that DPI complies with Federal fiscal requirements related to use of and accounting for ARRA Title I, IDEA, and SFSF funds disbursed to LEAs, DPI could use a risk-based strategy that would allow it to concentrate its time and effort on verifying and ensuring that expenditures were allowable and supported at those LEAs it designates as higher risk. Possible indicators to use in assessing the LEAs risk level could include certain factors related to each LEA's fiscal condition, timeliness of reporting, results of external audits, and results of OMB Circular A-133 single audits.

FINDING NO. 3 – DPI and ORR Need to Improve Procedures to Ensure ARRA § 1512 Data Are Accurate and Complete

DPI and the WI Governor's Office developed and implemented many proactive steps to meet § 1512 data reporting requirements. DPI developed surveys and spreadsheets to collect jobs data from LEAs and procedures to review the jobs data it collected. DPI also effectively used its Web site to update LEAs on ARRA matters. The WI Governor's Office established ORR to coordinate the State's data collection efforts and meet the data reporting requirements.[19] ORR adopted specific software and developed checklists to collect and review data from State agencies before submitting it to FederalReporting.gov. However, the jobs data reported were not always accurate and complete. DPI and ORR were very responsive during our audit in taking steps to rectify the issues relating to the quality of the § 1512 data.

[19]One of ORR's roles is to coordinate WI's compliance with the reporting and accountability requirements in ARRA. Its responsibilities include (1) collecting § 1512 data from all WI State agencies, (2) performing certain procedures to evaluate the reasonableness of the data, and (3) submitting data to FederalReporting.gov.

OMB *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, dated June 22, 2009, states prime recipients, as owners of the data submitted, have the principal responsibility for the quality of the information submitted. Also, the prime recipient should implement internal control measures as appropriate to ensure accurate and complete information and perform data quality reviews for material omissions and/or significant reporting errors, make appropriate and timely corrections to prime recipient data, and work with the designated subrecipient to address any data quality issues.

According to OMB *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, material omissions include instances where missing required data result in significant risk that the public is not fully informed as to the status of the project or activity. The significant reporting errors include instances where inaccurate data results in a significant risk that the public will be misled or confused.

Based on supporting documentation, DPI and ORR underreported the "number of jobs" attributable to the SFSF program, because DPI and ORR did not have adequate procedures to ensure subrecipients' submission of data was timely and accurate. Further, the jobs data DPI reported for Title I and IDEA were not calculated using the methods from OMB *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, because the guidance came out 4 days after DPI received the jobs data from LEAs. This guidance was issued on December 18, 2009, which is too late for DPI to re-create the survey using the new guidance. In March 2010, DPI revised the jobs data for Title I and IDEA to reflect the job numbers calculated under the new guidance.

Jobs Data for SFSF Program Underreported

DPI and ORR underreported the number of jobs created or retained using SFSF funds. Specifically, we found that DPI did not include the jobs data from 24 LEAs for SFSF GS and from 22 LEAs for SFSF ES. According to DPI's senior accountant of the School Financial Services Team, the jobs data for SFSF from the above LEAs were not reported because the LEAs did not respond timely to the online survey.

For the LEAs that did report data, we found that (1) the number of jobs reported for SFSF GS was underreported by 152.26 (75.06 from DPI and 77.20 from ORR); [20] and (2) the number of jobs for SFSF ES was underreported by 5.8. [21] The senior accountant of DPI's School Financial Services Team indicated the missing jobs were from an LEA that provided the job information late to DPI. In addition, ORR's recovery compliance coordinator stated the DOC jobs data were underreported because DOC did not report the right job number to ORR. As a result, DPI did not include complete jobs data in the second § 1512 quarterly report and did not report the errors to ED as advised by ED's *Clarifying Guidance on American Recovery and Reinvestment Act of 2009 Section 1512 Quarterly Reporting*, dated October 5, 2009. [22]

[20] The total number of jobs reported for SFSF GS was 2,221, which was composed of 1,570.96 from DOR, 572.90 from DPI, and 77.20 from DOC.
[21] The total number of jobs reported for SFSF ES was 3,931.6.
[22] The second § 1512 quarterly report referred to in this audit report was the December 31, 2009, § 1512 quarterly report which we obtained on February 1, 2010.

Both DPI and ORR officials stated that they had intended to make corrections to the jobs data by March 31, 2010. However, ORR missed the opportunity to correct the SFSF program jobs data for the second quarterly report ended December 31, 2009. According to ORR's recovery compliance coordinator, ORR did not correct the SFSF program jobs data because FederalReporting.gov was closed on March 15, 2010, two weeks earlier than the March 31, 2010, date stated in the OMB December 18, 2009, guidance. ORR's recovery compliance coordinator further stated that because he did not receive any communication on the early closing of the Web site, he thought recipients had until March 31, 2010, to make corrections. In addition, ORR's recovery compliance coordinator stated that the number of jobs reported for the SFSF program has been corrected. However, OIG could not verify the corrected job numbers because no supporting documentation was provided.

Timing of OMB's Guidance Affected Compliance with the Second § 1512 Quarterly Report Jobs Data

The number of jobs reported for Title I and IDEA for the second § 1512 quarterly report were calculated using OMB guidance dated June 22, 2009, and not the updated December 18, 2009, guidance. DPI officials stated that the jobs data it collected from the LEAs were calculated on a cumulative basis. Therefore, jobs were overstated in the jobs data included in the second § 1512 quarterly report jobs. DPI officials also stated that they included jobs created as a result of, but not directly funded by, ARRA programs. Per OMB *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, dated December 18, 2009, recipients should report jobs created or saved in that quarter and not on a cumulative basis. It also states that recipients should report a job only if the job was funded by ARRA. DPI did not follow the updated guidance because the guidance came out 4 days after DPI received the jobs data from LEAs through the surveys. DPI officials further stated that they planned to correct the jobs data by March 31, 2010, by sending another online survey based on the new guidance to LEAs to collect jobs data for the second § 1512 quarterly report. After notifying ED of the overstatement, DPI revised the jobs data for Title I and IDEA for the second § 1512 quarterly report using the jobs data collected in March 2010 from LEAs.

Recommendations

We recommend the Assistant Secretary for Elementary and Secondary Education in conjunction with the Assistant Secretary for Special Education and Rehabilitative Services require the WI Governor's Office and DPI to ─

3.1 Notify and work with ED to resolve data errors or omissions to ensure the data are accurate and complete.

3.2 Develop and implement additional control measures to ensure that:
(1) the subrecipients' data are accurate and submitted timely, and
(2) any material omissions and/or significant reporting errors detected are corrected in a timely manner, or develop alternative methods, with the approval of ED, to obtain the needed LEAs data to ensure compliance with the §1512 reporting requirements.

DPI and ORR Comments

DPI and ORR did not state whether they agreed or disagreed with this finding, but they agreed with the associated recommendations. DPI and ORR stated that it did not use the December 18, 2009, guidance for the jobs data because (1) DPI did not have sufficient time to reissue a new survey to its LEAs and (2) the LEAs would not have been available to respond even if a new survey had been available.

For Recommendation 3.1, DPI concurred with this recommendation and will work with ORR and ED to resolve data errors or omissions to ensure the data are accurate and complete. DPI and ORR stated that there is no guidance for correction of errors once the data have been posted to Recovery.gov. Accordingly, DPI has submitted emails to ED program officers identifying corrections and stating that when OMB gives DPI and ORR the opportunity to submit corrections, they will do so.

For Recommendation 3.2, DPI and ORR stated that they have and will continue to refine their internal controls and procedures to ensure subrecipients' data are accurate and reported timely. This includes improvements to the data collection surveys, confirming month end balances, working with ORR on data control sheets for the § 1512 reports, and conducting grant data validation.

OIG Response

Although OIG acknowledges that DPI's and ORR's receipt of the December 18, 2009 guidance was untimely, we also agree that they should improve the data collection procedures and work with ED program officers to identify and correct any material errors or omissions to ensure the completeness and accuracy of the § 1512 data.

OTHER MATTERS

During the audit, we identified certain isolated issues related to the § 1512 data. In particular, we found that (1) DPI incorrectly reported the "total federal ARRA received"[23] for Title I in its second § 1512 quarterly report, and (2) DPI and ORR did not always report award information with the correct subrecipient Data Universal Numbering System's (DUNS) numbers or names. These issues were not reported to ED as advised by ED's *Clarifying Guidance on American Recovery and Reinvestment Act of 2009 Section 1512 Quarterly Reporting*.

We found that DPI reported the amount that it disbursed to the LEAs instead of the amount it drew down as the "total federal ARRA received" in its second § 1512 quarterly report. DPI reported that it had received $3,152,842 in Title I funds, but ED's record showed that DPI had drawn down $3,158,326. DPI also did not have procedures in place to reconcile the amount disbursed based on information from DPI's general ledger to the amount drawn down based on information from the WI Department of Administration's Cash Management System. As a

[23] The Federal Register Vol. 74, No 61, 14825, states the "total federal ARRA received" is the cumulative amount of actual cash received from the Federal agency as of the reporting period end date.

result, DPI underreported the "total federal ARRA received" for Title I and increased the risk of reporting inaccurate and incomplete data.

DPI did not always report award information with the correct subrecipient DUNS numbers or names in its § 1512 quarterly report. Based on the second § 1512 quarterly report posted on Recovery.gov and the payment information from DPI, we determined that of the more than 425 LEAs in WI, DPI reported (1) four awards for one LEA under another LEA's DUNS number and name, (2) two awards under an incorrect LEA name and DUNS number, and (3) five awards for one LEA with two different DUNS numbers. According to OMB *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, significant reporting errors include instances where inaccurate data result in a significant risk that the public will be misled or confused. Without the correct DUNS numbers and names, the public would not be able to identify the correct subrecipients of the ARRA funds.

SCOPE AND METHODOLOGY

The purpose of our audit was to determine, for the reporting period ending December 31, 2009, whether WI (1) used ARRA funds in accordance with applicable laws, regulations, and guidance; and (2) reported data were accurate, reliable, complete, and in compliance with ARRA reporting requirements. We performed this audit at the WI Governor's Office and DPI located in Madison, Wisconsin. Our audit covered DPI's and the WI Governor's Office's use of funds, which included cash management, and the quality of data submitted to FederalReporting.gov to comply with § 1512 reporting requirements for the second quarterly reporting ending December 31, 2009. Our audit work focused on ARRA Title I, IDEA, and SFSF grants. For the SFSF program, our work focused on SFSF funds that were administered by DPI and disbursed to LEAs.

We obtained background information about the program, activities, and organizations being audited. To gain an understanding of the requirements applicable to use of funds and data reporting requirements for Federal grant programs at State agencies receiving ARRA funds, we reviewed Federal laws, regulations, OMB Circulars, and ARRA-specific guidance issued by OMB and ED. We also reviewed grant applications from WI to ED.

We interviewed DPI's Title I Program and School Support Team, assistant director, grant specialists, consultant, and accountants. We also interviewed DPI's Special Education Team, director of Special Education, grant specialist, consultants, special education data coordinator, and accountant. In addition, for the SFSF program, we interviewed DPI's director and acting director of the School Financial Services Team, accountant, and auditor. We also met with the WI assistant State superintendent – Division for Finance and Management, and officials from the WI Governor's Office, including representatives from the Budget Office and ORR. We performed audit steps to provide reasonable assurance of compliance with Federal requirements by the prime recipients in the following areas:

Use of Funds: We reviewed DPI's controls for receiving, managing, and disbursing ARRA funds. We also determined whether DPI had policies and procedures in place for correctly calculating and timely remitting interest earned on Federal cash balances. In addition, we determined whether the WI Governor's Office and DPI had adequate controls in place to minimize the time between receipt of Federal funds and disbursement. We determined this through interviews and observation performed at DPI's School Management Services Team and the WI Treasury Division. We evaluated DPI's allocation and distribution of ARRA Title I, IDEA, and SFSF funds for cash drawdowns and reimbursement requests.

We reviewed DPI's procedures for approving and accounting for ARRA expenditures, including the ability to separately account for ARRA funds. We obtained information regarding the control structure and environment through observation of the claim process and interviews with DPI's School Management Services Team. We discussed with officials of DPI's School Finance and Management Division it's monitoring of LEAs and reviewed the various documents including checklists it used to review the work of IPAs. We reviewed guidance posted on DPI's Web site on the proper expenditure of funds. We will review expenditures in more detail during our LEA review and report the results in a separate report.

Data Quality: We reviewed (1) DPI's and ORR's procedures to collect and report "number of jobs" and (2) DPI's procedures to collect and report "award amount," "total federal ARRA received," and "total federal ARRA expended" for the quarterly information required by § 1512. We performed an assessment of the reliability of computer-processed data by comparing the payment data from WiSMART to "total federal ARRA expended" and "total federal ARRA received" in the § 1512 quarterly report. To determine whether the data were accurate, reliable, complete, and in compliance with ARRA reporting requirements, we analyzed supporting documents provided by DPI and ORR for the above elements for more than 425 subrecipients. We then compared the information provided by DPI and ORR with what was posted to Recovery.gov. Based on our testing, the data were deemed appropriate for the intended purpose of the audit.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

WISCONSIN DEPARTMENT OF PUBLIC INSTRUCTION

Tony Evers, PhD, State Superintendent

July 30, 2010

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Dear Mr. Schultz and Ms. Dollard:

Thank you for the opportunity to review the Office of Inspector General's (OIG) draft audit report related to the Department of Public Instruction's (DPI) administration of federal American Recovery and Reinvestment Act (ARRA) funds. We are appreciative of your work regarding our responsibilities related to these one-time funds and look forward to a continued dialogue on the details of this report.

In some instances we were surprised by how the tone of this written report varied from our discussion of possible exception items at our June exit conference. This is especially true in terms of how some of the findings are headed and then articulated. The draft audit report, as written, implies a level of mismanagement that we do not believe is warranted. In our attachment, we identify some statements we think could be misconstrued by the reader and also offer some suggestions for your consideration.

We are hopeful you will consider our comments so DPI and the Office of Recovery and Reinvestment (ORR) staff can continue conversations with your office related to this draft before it is released. Generally, we believe the overall tone of the draft, especially as it relates to monitoring Local Education Agency (LEA) expenditures from the State Fiscal Stabilization Fund (SFSF) may leave the impression that shortcomings related to fiscal oversight were within DPI's control to address and could have led to a misuse of funds.

Many of the OIG's concerns regarding the administration of Wisconsin's SFSF were related to decisions that were outside DPI's control. Governor Doyle introduced his 2009-11 biennial budget bill to the State Legislature on February 17, 2009. The bill proposed allocating SFSF to the state's primary school aid formula in fiscal years 2009-10 and 2010-11, not fiscal year 2008-09. Had the Governor's request been implemented, DPI would have been able to develop a system to track LEA expenditures in a manner that addressed OIG's concerns. Instead, Wisconsin's revenue picture deteriorated so quickly, that the State needed to use the SFSF funds for Fiscal Year 2008-09. Unfortunately, there was virtually no written federal guidance regarding ARRA reporting requirements at that time.

Nonetheless, DPI staff and officials from the State Budget Office in the Wisconsin Department of Administration proactively contacted U.S. Department of Education (ED) officials

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Daniel Schultz
Theresa Dollard
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regarding the use of ARRA SFSF on May 21, 2009. We specifically asked ED officials whether Wisconsin could use ARRA SFSF funds for general school aid purposes immediately in FY09, to which the ED agreed. The ED also supported DPI's collection of assurances from each LEA describing that the expenditure of SFSF funds would be in compliance with the expense categories defined by the ARRA law. We hope your final report will acknowledge these efforts.

In addition, the draft audit report downplays the fact the Wisconsin Legislature passed legislation related to the appropriation of SFSF Governmental Services (GS) funds on June 11, 2009, (2009 Wisconsin Act 23). Enactment of this legislation occurred ***one*** business day prior to the state statutorily-required release of $1.6 billion in state primary formula aids, of which Act 23, combined with Act 11 enacted on May 15, allocated $552.3 million in SFSF to replace an equivalent amount of state funding. The draft states "DPI worked quickly to include the SFSF funds in the June 15, 2009, State General Aid payment to offset the budgetary shortfall for the LEAs without verifying whether the LEAs had enough actual expenditures allowable under the SFSF program." While it is accurate that DPI did not specifically verify every LEA expenditure in advance, doing so was not possible given there was only one business day between enactment of the SFSF allocation, which included the addition of the SFSF GS funds, and the actual statutorily required distribution of payments to individual LEAs. Further, Wisconsin met the intent of the SFSF to stabilize state budgets and save jobs that faced devastating cuts due to the recession of 2008 and 2009.

The draft audit report also does not appear to recognize the well-established fiscal monitoring procedures currently in place at DPI. The report implies there was little monitoring of expenditures, which we do not believe is true. During OIG's audit, your staff noted that DPI was developing risk-based strategies to further strengthen the fiscal monitoring of all federal grant programs, even prior to receiving ARRA funding.

We look forward to our continued dialogue on the details of this draft audit report before it is released. Again, we appreciate the opportunity to provide you with our written comments and look forward to additional discussion as you finalize this report.

Sincerely,

Tony Evers PhD
State Superintendent

Christopher Patton
Recovery and Reinvestment Director
Special Assistant to the Governor

TE/CP/aw

Responses to Results Section
The concern that DPI and ORR share regarding the tone of the draft audit report begins on page 1 of 12 [Final Report page 1 of 15] in the Results section of the OIG Draft Audit Report. Here, OIG makes the following statements:

- "Specifically, the distribution of SFSF funds did not allow for proper tracking of expenditures at the State and LEA levels and DPI needs to improve its monitoring over ARRA funds."; and
- "…DPI did not properly account for the two components of SFSF the program…."

We believe that both of these statements are somewhat misleading. The "distribution" of SFSF funds didn't cause improper tracking and DPI did properly account for the Education Services (ES) and Government Services (GS) components of the SFSF funds.

It might be more appropriate to describe that action by the Wisconsin Legislature on May 15, 2009 and on June 11, 2009 that included the substitution of SFSF GS funds and SFSF ES funds to replace $552.3 million of reductions in state financial support for elementary and secondary education caused or led to an insufficient tracking of the ARRA SFSF funds. Other relevant supporting information follows:

a. The two State bills that required DPI to allocate $552.3 million of SFSF to replace equivalent reductions in state support for elementary and secondary education were enacted on May 15, 2009 ($291 million under 2009 Wisconsin Act 11) and June 11, 2009 ($261.3 million under Wisconsin Act 23).
b. It was not until the passage of Act 23 on June 11, 2009 that GS funds were appropriated to offset reductions in state K-12 support.

DPI did properly account for the two components of the SFSF program as described in more detail below.

Responses to Finding #1
Our next area of concern is within Finding One, on page 3 of 12 [Final Report page 3 of 15] which describes how the method used in distributing SFSF funds did not allow for proper tracking. OIG also notes here that DPI used its SFSF allocation to fill the shortage in State General Aid for LEAs rather than identifying that DPI had been directed by the State Legislature to use SFSF funds for this purpose. The specific OIG references are included below:

- "However, the method used in distributing SFSF funds did not allow for proper tracking of specific SFSF Program expenditures at the State and LEA levels.
- "In addition, DPI's method of distributing SFSF funds could prevent LEAs from being able to trace ES and GS funds to specific actual expenditures."
- "DPI used its SFSF allocation to fill the shortage in State General Aid for LEAs."

We believe that these statements are misleading and do not accurately depict DPI's role in the allocation and distribution of SFSF. Together, these statements imply that (a) DPI chose how to use the SFSF funds and how to distribute them; (b) SFSF funds were not properly tracked; and (c) ES and GS funds could not be tracked separately and properly. We feel that each of these statements is partially inaccurate and as such could lead the reader to inaccurate conclusions.

With respect to DPI's role and distribution methodology: As will be noted several times in this response, it is not the distribution method that impacts the ability to track SFSF monies or expenditures. The distribution method is the state's equalization aid formula. Rather, the circumstances under which the funds were appropriated are responsible for creating difficulties – specifically, these circumstances made it impossible to construct a system that required LEAs to identify specific allowable expenditures prior to receiving SFSF monies and using those monies to fund those allowable expenditures. The state's rapidly deteriorating fiscal climate necessitated action by the Legislature, which included expending SFSF monies unexpectedly in late fiscal year 2008-09. In fact, as explained in our cover letter, appropriation of GS funds for State General Aid occurred just one business day prior to the required June 15, 2009 aid payment. DPI was statutorily required to implement the Legislature's directive to use the SFSF allocation to fill the shortage in the State General Aid for LEAs in fiscal year 2008-09. We suggest that it was the state's fiscal condition and the resulting statutory requirements that created difficulty in tracking funds and expenditures, not DPI's distribution methodology.

Further, DPI strongly believes that the method used to distribute SFSF funds was required under ARRA s. 14002 (a)(2)(A), "The Governor shall first use the funds … to provide the amount of funds, through the State's primary elementary and secondary funding formulae" needed to restore the levels of state support in fiscal years 2009, 2010 and 2011 to the greater of the fiscal year 2008 or 2009 level." To comply with the ARRA requirement, 2009 Wisconsin Acts 11 and 23 allocated the SFSF to the State's General Equalization Aid appropriation. In addition, the fact that SFSF funds were distributed using the State equalization aid formula did not result in districts being unable to track the specific expenditures. The method of payment combined the two funds for cash distribution, but LEAs were able to identify SFSF allocations separately from the general aid using a separate account code provided by DPI.

With respect to tracking SFSF funds generally: By enacting 2009 Wisconsin Act 11 on May 15, 2009, the Legislature required DPI to use SFSF funds in fiscal year 2008-09, which had been unanticipated previously. DPI immediately sought assistance from the U. S. Department of Education (ED). During its May 21, 2009 teleconference, ED informed DPI and the State Budget Office that LEAs could apply SFSF funds to expenditures dating back to March 23, 2009 so long as assurances were signed. By permitting LEAs to apply SFSF funds to past expenditures, DPI understood that ED sanctioned the use of SFSF monies to reimburse LEAs for funds already spent, thereby precluding a claims process that proactively tracks a specific dollar to a specific expenditure. DPI was confident that enough allowable expenditures existed within the period of eligibility (after March 23, 2009) to absorb the $552.3 million in SFSF distributed to LEAs on June 15, 2009.

With respect to tracing ES and GS funds separately: We also believe that DPI provided LEAs with the tools necessary to assign ES and GS funds to specific and actual expenditures. It is true that extreme circumstances prevented this from happening in advance of expenditures, or through a claims- or application-type process. The Legislature did not appropriate GS SFSF funds until one business day prior to the June 15, 2009 State General Aid payment. We believe that the short time frame between the Legislature's directive in Act 23 and the June 15 payment was the cause of difficulty in separately tracking ES and GS funding and was not within DPI's control. Due to the short turn-around time to provide districts with the ability to track their expenditures for the SFSF – ES and GS, DPI calculated each LEA's SFSF payment portion as 87 percent ES and 13 percent GS. These percentages were proportionate to the amounts drawn from the Federal Cash Management system under the ES and GS codes.

Of note is that it is standard procedure for the School Financial Services team to provide LEAs, via DPI’s School Financial Services team website, with a list of coding for federal and state programs administered by DPI. This document is continually updated for newly created account codes and was updated on May 20, 2009 with the new SFSF project code number 810 to be used in tracking or identifying SFSF expenditures. In a DPI list serve dated June 16, 2009, districts were notified that the ARRA funds would not be treated as low-risk programs for federal single audit purposes and that many districts would be required to have a federal single audit as a result of the SFSF funds. Based on that notification, LEAs were aware of the need to be able to identify the expenditures funded by ARRA for audit purposes. We believe the short time frame between the Legislature's directive in Act 23 and the June 15 payment was the cause of difficulty in separately tracking ES and GS funding prior to payment and was not within DPI’s control. Further, SFSF monies used in the June 15, 2009 payment functioned as a reimbursement for costs already incurred. Under Acts 11 and 23, DPI was statutorily required to pay the funds only two weeks before the close of fiscal year 2008-09, at which time most school years had concluded and most expenses had been paid. Therefore, our method of distribution – the state equalization aid formula – does not contribute to tracking difficulties.

Our next area of concern regarding tone is within Finding One in the LEA-level Tracking section, on pages 4 and 5 of 12 [Final Report pages 4 and 5 of 15] and is focused on how the method used in distributing SFSF funds did not allow for proper tracking. OIG also notes here that DPI used its SFSF allocation to fill the shortage in State General Aid for LEAs rather than identifying that DPI had been directed by the State Legislature to use SFSF funds for this purpose. The specific OIG references are included below:

- "However, as a result of DPI’s process for distributing SFSF funds, LEAs applied blocks of expenditures to SFSF based only on pools of cost categories, instead of separately accounting for specific expenditures." (p.4 of 12) [Final Report page 5 of 15]
- “However, DPI’s analysis was not adequate to ensure LEAs had incurred enough allowable expenditures within the period of availability for its SFSF funds because the calculation (1) was based on cost categories that were not verified and (2) used a prorated amount based on a daily uniform average instead of actual expenditures incurred during the period of availability.” (p.4 of 12) [Final Report pages 5 and 6 of 15]
- “As a result of DPI's methodology for disbursing its SFSF funds, DPI did not comply with ARRA's requirement regarding transparency, reporting, and accountability." (p. 5 of 12) [Final Report page 6 of 15]
- “Because DPI did not properly account for and track SFSF ES and GS funds, there is insufficient assurance that the SFSF funds were used for allowable purposes and accrued within the period of availability.” (p.5 of 12) [Final Report page 6 of 15]

Since the amount of the SFSF needed to restore the fiscal year 2008-09 level of state support was not determined until June 11, 2009, DPI had little choice but to conduct an after-the-fact analysis of the amount of expenditures that occurred within the period of availability, which began on March 23, 2009. Approximately 30% of the school year remained between March 23 and June

12 (the end of the school year for virtually all Wisconsin school districts). The $552.3 million in SFSF distributed to LEAs in fiscal year 2008-09 accounted for approximately 5.8% of total non-federal school district expenditures in fiscal year 2008-09, DPI is confident that enough allowable expenditures existed within the period of eligibility.

The financial information that was used in the calculation was based on audited FY 2009 data received from the LEAs. When the LEA submitted their annual data for calculation of the State Equalization Aid, the data had been audited by an independent auditor. Therefore, the information used in this financial analysis would have been verified at the district level through audit procedures performed by the independent auditor. This financial analysis, as noted in the draft audit report, was done by DPI at the state level. However, at the LEA level, districts were provided with a mechanism to track and identify the expenditures and were informed to have the information available to their independent auditors.

Procedures are in place to perform on-site visits of the independent audit firms. During the 2008-09 visits, DPI auditors reviewed the audits of the SFSF funds and cited several audit firms for not properly auditing these funds per the OMB Circular A-133 compliance supplement. LEA independent auditors are required to perform their audit work during the months of July and August so that audited data required for the State Equalization Aid calculation is provided to DPI by the first week of September. The addendum to OMB Circular A-133 compliance supplement, which addresses the audit of the SFSF, was not available until August 2009. As a result, auditors were forced to design audit procedures based on professional judgment in order to provide data to DPI by the first week of September 2009.

As noted above, the methodology of disbursement is not the cause of difficulties in transparency, reporting and accountability. DPI and ORR timely submit ARRA 1512 reports, work closely with sub-recipients and the ED to ensure the accuracy and reliability of data, and post ARRA information to the State websites and to the federalreporting.gov website.

Finally, with regard to this Finding, the report should note that DPI implemented procedures for the allocation of SFSF for the 2009-10 fiscal year. To receive their fiscal year 2009-10 SFSF allocations, all school districts filed an application form which was due April 16, 2010. The form contained an authorized signature attesting to the assurances in the form. Included in the application form was a detail of the expenditures by account code, description and amount. A final claim was then submitted by all districts and was due to DPI by May 24, 2010. The final claim form reflected any changes the district made regarding the use of the funds from the original application. All applications and claims were reviewed by DPI staff and procedures were established to assist in the review. A sample of 15 districts was selected based on risk criteria determined by the DPI school finance auditors. The 15 districts provided supporting documentation for the expenditures they claimed for reimbursement. All 15 districts provided the documentation prior to the June 21 payment of the funds. All districts then filed a survey online with DPI by June 23rd reporting the FTE and vendor information directly funded. Districts were provided with various resources during the process of filing the application, claim and survey.

Response to Recommendation 1.1
DPI concurs with this recommendation as written and believes that it has implemented appropriate procedures to ensure its remaining SFSF ES and GS funds which were disbursed to sub-recipients on June 21, 2010 are properly and separately accounted for and tracked.

Response to Recommendation 1.2
DPI does not agree with the recommendation as written as it suggests that the review process was not sufficient. DPI strongly believes that the LEAs used the FY 2008-2009 funds for allowable activities and that those expenditures were accrued within the period of availability. To perform a review at this time would appear unnecessary and duplicative because (a) no new information is available that would change or augment the audits, and (b) there is no evidence of unallowable costs.

Response to Finding #2
DPI does not concur with Finding Number 2 in its entirety. We feel that the audit report dismissed the comprehensive fiscal monitoring system that DPI had in place at the time of the OIG audit. These well-established fiscal monitoring procedures were in place prior to the awarding of ARRA, which facilitated the expediency of awarding the ARRA funds while guaranteeing measures of accountability. In addition, extensive efforts have been carried out to ensure that the LEA's use of the ARRA funds are in alignment with the Act and in accordance with applicable laws, regulations, and guidance.

In particular, DPI does not agree with the statement that DPI does not have any policies and procedures in place requiring fiscal monitoring to ensure LEAs comply with Federal fiscal requirements related to use of and accounting for ARRA Title I and IDEA funds. Well-established fiscal monitoring processes were adapted to include the specific requirements of ARRA.

- On-site monitoring visits are conducted for Title I annually in the spring, in accordance with the state's plan for monitoring Elementary and Secondary Education Act (ESEA) consolidated programs. When OIG visited in February 2010, the Title I site visits had not yet occurred. When the spring site visits were conducted in 2010, as planned, the fiduciary responsibility checklist was conducted for both Title I and Title I-ARRA funds. LEAs are required to respond to any fiscal findings and submit a corrective action plan within 30 days of the receipt of the monitoring report.
- One of the foundations for DPI's fiscal monitoring is Wisconsin's Uniform Financial Accounting Requirement (WUFAR) system. All LEAs are required to use this accounting system when reporting financial data to the DPI. This system has been developed so that the DPI and the LEA can easily track funding sources and identify the expenditures associated with the funding source. For example, special education costs have their own government fund number (27) and each federal program is assigned its own unique project code. At an even more detailed level, special education uses unique account codes to differentiate between allowed costs – so detailed that contracted transportation is accounted for separately from non-contracted transportation. This is what enables the independent school auditors to easily identify the costs associated with that program.

- An additional foundation for DPI fiscal monitoring is each program's well-established grant project budget and review process. No regular program or ARRA funds were distributed prior to an LEA having an approved grant application, which includes budget detail. In accordance with ARRA guidance, both the Individuals with Disabilities Education Act (IDEA) and Title I programs required LEAs to apply for ARRA funds separately.
- DPI has well-established monitoring procedures which include site visits of audit firms. It was determined during DPI's 2008-09 visits that in some cases ARRA funds were not appropriately audited. This information was provided to OIG during their audit here in February. The audit firms that did not review the ARRA funds were cited as not auditing the program in accordance with Office of Management and Budget (OMB) Circular A-133. However, DPI wishes to point out that the OMB Circular A-133 addendum addressing ARRA funds was not released until August 2009. This date is important because independent school auditors were performing their audits in July and August. Without this guidance, the audit procedures were based on an auditor's professional judgment.

Response to Recommendation 2.1
Prior to OIG's visit and the awarding of ARRA, DPI was developing ~~a~~ risk-based strategies for fiscal monitoring of federal grant programs to even further strengthen its monitoring of these funds. We concur with the OIG that DPI will continue to incorporate risk-based strategies into our existing system for fiscal monitoring to verify and ensure that expenditures are allowable and supported at those LEAs it designates as high risk.

Response to Recommendation 2.2
DPI concurs with this recommendation and implemented it for the 2009-2010 fiscal year. All districts filed an application form which was due April 16, 2010. The form contained an authorized signature attesting to the assurances in the form. Included in the application form was a detail of the expenditures by account code, description and amount. A final claim was then submitted by all districts and was due to DPI by May 24, 2010. The final claim form reflected any changes the district made regarding the use of the funds from the original application. All applications and claims were reviewed by DPI staff for allowable costs. A sample of 15 LEAs was selected, based on risk criteria determined by the school finance auditors. The 15 districts provided supporting documentation for the expenditures they claimed for reimbursement. All 15 districts provided the documentation prior to the June 21 payment of the funds. The documentation verified that all 15 LEAs expended the ARRA funds within the required timeframe and for allowable costs. All districts then filed a survey online with DPI by June 23rd reporting the FTE and vendor information directly funded. Districts were provided with various resources during the process of filing the application, claim and survey.

Response to Finding #3
As reported by the OIG, DPI had sent out its quarter two survey in early December knowing that many of the school district offices would be closed and staff unavailable from December 21, 2009 through January 3, 2010. The reporting deadline for the school districts to report their job and vendor information was December 16, 2009. When OMB issued new guidance on how to calculate job data on Friday, December 18, 2009 there was insufficient time for DPI to reissue a new quarter two survey and the sub-recipients would not have been available to respond if a new survey had been available. Also to alleviate the burden on school districts, DPI combined the

quarter two corrections with the quarter three survey as the December 18 guidance and webinars indicated that changes could occur through March 31, 2010.

Response to Recommendation 3.1

DPI concurs with this recommendation and we will continue to work diligently with ORR and with ED to resolve data errors or omissions to ensure the data are accurate and complete. As noted by OIG, ED's *Clarifying Guidance on American Recovery and Reinvestment Act of 2009 Section 1512 Quarterly Reporting,* dated October 5, 2009, allows for the correction of errors identified in days 11- 29 following a reporting quarter. DPI and ORR are aware of this window of opportunity and have used it when corrections are identified in this time frame. However, once the data has posted to recovery.gov there is no guidance on how to update information posted to this web site. Accordingly, DPI has submitted emails to ED program officers identifying corrections and stating that when OMB gives DPI and ORR the opportunity to submit corrections we will do so.

Response to Recommendation 3.2

As noted by the OIG, "DPI and the Governor's Office developed and implemented many proactive steps to meet ARRA §1512 data reporting requirements." ORR and DPI believe that we have submitted sub-recipient data that is accurate and timely and that material omissions or significant reporting errors, if any, were corrected in a timely manner. With each quarterly collection and submission process we identify improvements to our processes and incorporate them into the next reporting cycle. This has included improvements to the data collection surveys, confirming month end cash balances with the State Controller's Office, working with ORR on data control sheets for the §1512 reports that DPI submits to ORR, and conducting individual grant data validation to ensure data accuracy.

We support the recommendation of the OIG. As work continues in all ARRA programs, DPI and the ORR have and will continue to refine its internal controls and procedures such that sub-recipient data continues to be accurate and timely submitted.

While the DPI believes its internal controls for this program are strong, we also believe they can be enhanced. This is especially important with a program that is as visible as the ARRA grant programs.

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