Special Education Fiscal Auditing
Daniel Bush, DPI School Financial Services
WASBO Accounting Conference
March 16, 2016

Topics

- Audit Program Overview
- Resolving Findings
- Current Findings and Issues
- Grant Expenditures Reconciliation
- Changes Under Discussion

Audit Program Overview

What are auditors looking for? Why do we care?
Special Education Audit Program

- Program audit, not fiscal audit
- Required for all LEAs
- Purposes
  - Verify compliance with licensure and other program requirements
  - Verify accurate reporting for state aid calculation and federal IDEA Maintenance of Effort

Program Compliance Requirements

1. "No Valid License" audit
2. Payroll testing
3. Personal services and employee travel
4. Private vendor contracted services
5. Specialized transportation
6. Vehicle/equipment purchases
7. Open Enrollment reconciliation
   - Will change with 2016-17 OE law

NVL/QC Worksheet

- Required for
  - Staff listed under “Educators Without Valid Licenses”
  - Other questioned costs
- Due before audited financial statements
  - Aid payments begin in November, need worksheets in October
- Note whether LEA is requesting license status review
  - Reviews are not automatic!
Staff Must Be Properly Licensed

- License must be current and valid
- License must be appropriate for the individual's actual assignment

Valid Reporting and License Codes for Special Education/Pupil Services Staff available at:

dpi.wi.gov/sfs/aid/special-ed/sped-sap/eligibility
District Representation Letter

- Used to correct NVL report when:
  - Position/area incorrect on district's PI-1202
  - License issued after NVL check run in June

License Checking Responsibility

- Compliance Requirement 1
  - DPI generates NVL list from cross-check between district's position report and license database
  - Auditor does not check the license
  - Auditor completes & submits worksheet, attaches district representation letter (if provided)

- Compliance Requirements 2, 3 & 4
  - Auditor tests records as appropriate
  - Auditor does check the license
  - Questioned cost reported on worksheet

Specialized Transportation

- Pupil transportation in Fund 27, project 011
- Did all students have transportation in IEP?
  - Exceptions:
    - Listed in another student’s IEP (e.g. peer mentor)
    - "Incidental Benefit": Picked up at same location, didn’t displace another pupil with IEP, didn’t increase route cost/capacity
    - Accommodation for newly homeless students in first 20 days to use specialized route w/o disqualifying it
- Students going to/from school also counted for Pupil Transportation Aid?
- Questioned cost calculation specified
Vehicle/Equipment Purchase

- Vehicles
  - Prior approval from DPI required
- Equipment with unit cost at least $10,000
  - Prior approval from DPI required
- Equipment with unit cost less than $10,000
  - No review

SPED Open Enrollment

- Do expenditures match FTE out?
- Do revenues match FTE in?
- Is the base flat rate coded to Fund 10?
  - 2015–16 rate: $6,639
- Is there a PI–2092 open enrollment tuition agreement on file?
- Errors are not a questioned cost for aid, but corrections the LEA must make
  - No finding required if corrected before reports are submitted

Reporting Compliance Requirements

1. Match aid–eligible expenditures to 1505–SE
2. Proper coding
3. Report questioned costs
Ledger vs. PI-1505-SE

- Compare general ledger to PI-1505-SE
- Trace:
  - Total Fund 27 expenditures
  - Fund 27 project 011 (aid-eligible) expenditures

Proper WUFAR Coding

- No specific procedure beyond auditor’s usual scope of work
- Miscoding should be fixed during audit
- Only issue a finding for:
  - Deliberate miscoding to claim state special ed aid or federal IDEA funds
  - Deliberate miscoding between Funds 10 & 27 for misstating IDEA MOE
  - Auditor’s judgment of a significant, ongoing fiscal management issue

NVL/QC Reporting

- Email to dpisfreports@dpi.wi.gov:
  - Completed NVL/QC worksheet—submit actual Excel workbook, not PDF or scan
  - All “Educators Without Valid Licenses”
  - Any additional questioned costs
  - Reflect account coding after any corrections
  - Confirm whether district agrees or disagrees
  - Supporting documentation as appropriate
    - District’s representation letter
    - Copy of license certificate—not DPI website printout
    - Payroll records
    - Other appropriate documentation
Resolving Findings

What happens next?

NVL/QC Worksheet Follow-Up

- SFS consultant may request more information
- Negative adjustments applied as necessary to aidable costs on PI–1505–SE (reduces aid)
- License reviews:
  - Special Education Team reviews licenses and makes eligibility determinations
  - District and auditor contacted with result
  - Adjustments reduced/removed as necessary (additional aid in subsequent payments)

All Other Findings

- SFS auditors review financials and forward findings to consultants as appropriate
- SFS consultant emails letter to district requesting information
- District responds, further discussion/clarification may be required
- SFS consultant informs district of decision
  - Negative adjustments applied as necessary to aidable costs on PI–1505–SE (reduces aid)
Reminder

- Auditor’s task is to review records and report questioned costs and other information as required by the audit program
- Auditors should not be making final licensure, transportation, or other eligibility determinations

Current Findings and Issues

- Areas of concern in the field

Licensing

- No confirmation that DPI database review will be complete in time for audits
- May 1 deadline for decision on whether to extend manual testing another year
Specialized Transportation

- Overall improvement—fewer findings!
- Counting for both Special Ed & Pupil Transportation Aids most common problem
- Reminder: Eligibility is by route/service, not by kid—questioned costs aren’t prorated among individual students

Grant Payment Reconciliation

- Project 340 expenses vs. final IDEA claims
- GPI/GPO lines on PI–1505–SE
- GPO = Project 340 w/ certain 380 objects?
  - Obj 382 Payments to WI District
  - Obj 383 Payments to CCDEB
  - Obj 386 Payments to CESA
- Other challenges
  - Late claims/budget changes shifting payments to other LEAs on/off the grant
  - Lengthy CESA reconciliations
  - Do checks indicate payment w/ grant funds?

Medicaid Revenue

- Current year SBS in Fund 27, all other Medicaid in Fund 10
  - Exception: Refund to DHS for district’s own SBS claiming error in the previous year
- Q: What does “previous year” mean for July/August claims?
  - A: “Previous year” doesn’t include claims that could’ve been submitted/accrued by June 30
  - Holding back claims until after June 30 doesn’t transform them into Fund 10 revenue
Grant Expenditures Reconciliation
or, One Man’s Crazy Dream

Concept

IDEA Final Claims = Project 340 Expenditures

Problems

- Disconnect between grant managers and business offices
- Timing: federal (obligations) vs. WUFAR (expenditures)
- Reporting vs. grant timelines
  - Annual reports due mid-September
  - IDEA claims open through September 30
- Lump-sum/contract discretionary grants
  - Grants from CESA should be coded w/ project 517
  - Only direct DPI grants use projects 342/349
Obligations vs. Expenditures

- **Obligation**
  - Order placed, contract awarded, goods/services received, employee work during a given period
  - Payment required in current or future period
  - General Federal Award Guidance at [http://dpi.wi.gov/sms/fedaids](http://dpi.wi.gov/sms/fedaids)

- **Expenditure**
  - Recognized when liability is incurred

- **Liquidation**
  - Payment to resolve the liability
  - May not submit grant claim until obligation is liquidated

---

Federal Grant Timeline

- **Obligations**
  - Grant Period
- **Expenditures**
  - Liquidation Period
- **Claims**
  - Forward Funding
  - Federal Fiscal Year

---

Example: Teacher salary paid in monthly increments

- **Obligations**
  - Monthly increments
- **Expenditures**
  - Monthly increments
- **Claims**
  - Claims only for expenditures to date
Example: Summer renovation project

1/22: Contract signed [OBLIGATION]
6/15–7/8: Work performed
7/14: Invoice received [EXPENDITURE]
8/15: Invoice paid [LIQUIDATION]
8/17: IDEA flow–through claim submitted
9/12: Reimbursement paid by DPI

Why Do We Care?

s. 115.88 (7), Wis. Stats.:

OFFSETTING RECEIPTS. In any school year, the following revenues shall be deducted from costs aidable under this section before aids are calculated under this section:

(a) Any federal operational revenues expended on costs aidable under this section.

So why can’t we just subtract 27R 730 from 27E project 011?
• Aid–eligible LEAs buy services from each other
• Differences in recording between LEAs can result in state aid paid on federally-funded expenditures
The Reconciliation Ideal

- Aids register to revenue (currently in PI-1505)
  \[ \text{Aids register source 730} = \text{Beginning due from other gov'ts} + R 730 - \text{Ending due from other gov'ts} \]

- Revenue to expenditures
  \[ \text{Ending} \begin{array}{l} 27 \text{ R 730} = \text{unexpended} + 27 \text{ E project 340} - \text{unexpended} \text{ obligations} \end{array} \]

Next Steps

- Would you be able to reconcile grant revenues/expenditures now?
  - If not, what are the obstacles?
- Revisit communication with grant managers
  - Make sure you know what your SPED/C&I director or CESA is doing!
- Write reconciliation into your procedures
  - Written procedures now required for federal grants

Changes Under Discussion

What might you expect to see in the next versions of the audit program?
Aid–Eligible Contracted Services

- Costs coded to 27E-436000-370-011
- Review of High Cost Spec Ed Aid claims found multiple districts reporting ineligible private tuition as "transition services"
  - Should have been caught by the auditor—already part of compliance requirement 4
- Procedure will be expanded and detailed

Tuition & Open Enrollment

- Changes in 2016–17 biennial budget
  - Fixed transfer for Open Enrollment students with disabilities
  - Space determinations include both Open Enrollment and tuition–paid students
  - New requirements on tuition agreements
- Compliance Requirement 7 checks proper coding of Open Enrollment & tuition revenue

Questions to Consider

- Is the district accepting district– or parent–paid students with disabilities, but not Open Enrollment students?
- Are the revenues/expenditures recorded properly?
- Is the district making the proper distinction between tuition and cooperative “66.0301” agreements?
Tuition vs. Cooperative Agreements

**Tuition Agreements**
- For students
- Authority: s. 121.78
- Resident district pays another district for instruction/placement

**Cooperative Agreements**
- For programs
- Authority: s. 66.0301
- Multiple LEAs share costs of a program
- One LEA is fiscal agent

- Resident district remains FAPE agency in either case
- Districts may not cast tuition agreements as “66.0301” to avoid space determination/Open Enrollment issues

---

More Information

- Audit Manual:
  [dpi.wi.gov/sfs/finances/auditors/audit-manual](https://dpi.wi.gov/sfs/finances/auditors/audit-manual)
- Special Ed/SAP Categorical Aid:
- SFS Consultant:
  Daniel Bush
daniel.bush@dpi.wi.gov
608-267-9212