

Reporting and insights from 2023 audit:

Milwaukee Public Schools

June 30, 2023

Executive summary

December 20, 2024

Milwaukee Board of School Directors
Milwaukee Public Schools

We have completed our audit of the financial statements of Milwaukee Public Schools (the District) for the year ended June 30, 2023, and have issued our report thereon dated December 20, 2024. This letter presents communications required by our professional standards.

Your audit should provide you with confidence in your financial statements. The audit was performed based on information obtained from meetings with management, data from your systems, knowledge of your District's operating environment and our risk assessment procedures. We strive to provide you clear, concise communication throughout the audit process and of the final results of our audit.

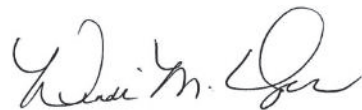
Additionally, we have included information on key risk areas Milwaukee Public Schools should be aware of in your strategic planning. We are available to discuss these risks as they relate to your organization's financial stability and future planning.

If you have questions at any point, please connect with us:

- Wendi Unger, Principal: wendi.unger@bakertilly.com or +1 (414) 777 5423
- Michelle Walter, Senior Manager: michelle.walter@bakertilly.com or +1 (414) 777 5576

Sincerely,

Baker Tilly US, LLP



Wendi M. Unger, CPA, Principal

THIS COMMUNICATION IS INTENDED SOLELY FOR THE INFORMATION AND USE OF THOSE CHARGED WITH GOVERNANCE, AND, IF APPROPRIATE, MANAGEMENT, AND IS NOT INTENDED TO BE AND SHOULD NOT BE USED BY ANYONE OTHER THAN THESE SPECIFIED PARTIES.

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Responsibilities

Our responsibilities

As your independent auditor, our responsibilities include:

- Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high level of assurance.
- Assessing the risks of material misstatement of the financial statements, whether due to fraud or error. Included in that assessment is a consideration of the District's internal control over financial reporting.
- Performing appropriate procedures based upon our risk assessment.
- Evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management.
- Forming and expressing an opinion based on our audit about whether the financial statements prepared by management, with the oversight of the Milwaukee Board of School Directors:
 - Are free from material misstatement
 - Present fairly, in all material respects and in accordance with accounting principles generally accepted in the United States of America
- Performing tests related to compliance with certain provisions of laws, regulations, contracts and grants, as required by *Government Auditing Standards*
- Considering internal control over compliance with requirements that could have a direct and material effect on major federal and major state programs to design tests of both controls and compliance with identified requirements
- Forming and expressing an opinion based on our audit in accordance with OMB's *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) and *State Single Audit Guidelines* about the entity's compliance with requirements described in the *OMB Compliance Supplement* and *State Single Audit Guidelines* that could have a direct and material effect on each of its major federal and major state programs.
- Our audit does not relieve management or the Milwaukee Board of School Directors of their responsibilities.

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of the Milwaukee Board of School Director's, including:

- Internal control matters
- Qualitative aspects of the District's accounting practice including policies, accounting estimates and financial statement disclosures
- Significant unusual transactions
- Significant difficulties encountered
- Disagreements with management
- Circumstances that affect the form and content of the auditors' report
- Audit consultations outside the engagement team
- Corrected and uncorrected misstatements
- Other audit findings or issues

Audit status

Significant changes to the audit plan

There were no significant changes made to either our planned audit strategy or to the significant risks and other areas of emphasis identified during the performance of our risk assessment procedures.

Audit approach and results

Planned scope and timing

Audit focus

Based on our understanding of the District and environment in which you operate, we focused our audit on the following key areas:

- Key transaction cycles
- Areas with significant estimates
- Implementation of new accounting standards

Our areas of audit focus were informed by, among other things, our assessment of materiality. Materiality in the context of our audit was determined based on specific qualitative and quantitative factors combined with our expectations about the District's current year results.

Key areas of focus and significant findings

Significant risks of material misstatement

A significant risk is an identified and assessed risk of material misstatement that, in the auditor's professional judgment, requires special audit consideration. Within our audit, we focused on the following areas below.

Significant risk areas	Testing approach	Conclusion
Management override of controls	Incorporate unpredictability into audit procedures, emphasize professional skepticism and utilize audit team with industry expertise	Procedures identified provided sufficient evidence for our audit opinion
Improper revenue recognition due to fraud	Confirmation or validation of certain revenues supplemented with detailed predictive analytics based on non-financial data and substantive testing of related receivables	Procedures identified provided sufficient evidence for our audit opinion

Other areas of emphasis

We also focused on other areas that did not meet the definition of a significant risk but were determined to require specific awareness and a unique audit response.

Other areas of emphasis		
Cash and investments	Revenues and receivables	General disbursements
Payroll	Pension and OPEB liabilities	Long-term debt
Capital assets	Net position and fund balance calculations	Financial reporting and required disclosures

Internal control matters

We considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements. We are not expressing an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We identified the following deficiencies as material weaknesses:

- **Financial statement close process**

Properly designed systems of internal control provide your organization with the ability to process and record accurate monthly and year-end transactions and annual financial reports.

Our audit includes a review and evaluation of the internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- There is adequate staffing to prepare financial reports throughout the year and at year-end.
- Material misstatements are identified and corrected during the normal course of duties.
- Complete and accurate financial statements (ACFR), including footnotes, are prepared.
- Complete and accurate schedule of expenditures of federal and state awards (SEFSA) is prepared.
- Financial reports are independently reviewed for completeness and accuracy.
- Account reconciliations and financial reports are agreed to District system generated trial balances.

Our evaluation of the internal controls over financial reporting has identified control deficiencies that are considered material weakness surrounding the preparation of financial statements and footnotes including the schedule of expenditures of federal and state awards, adjusting journal entries identified by the auditors, and an independent review of financial reports.

Management has not prepared financial statements that are in conformity with generally accepted accounting principles or the schedule of expenditures of federal and state awards that is in conformance with the applicable federal or state requirements. In addition, material misstatements in the general ledger were identified during the financial audit and subsequently corrected upon being questioned as part of the audit process.

Management's Response, June 30, 2022

The District is enhancing or revamping areas of the financial reporting close process to ensure the above attributes are achieved. As part of these enhancements, the District will:

1. Create a checklist of key account reconciliations to be prepared monthly, a review and approval tracker for each reconciliation, and deadlines to complete
2. Create a list of journal entries which are required monthly and annually, a review and approval tracker for each entry, and deadlines to complete.
 - a. Create and document the necessary processes to ensure the required journal entries can be prepared accurately, completely, and timely.
3. Enhance monthly close calendar to include preparation of financial statements, a review and approval tracker to ensure financials are complete and accurate, and deadlines to complete.

Management's Response, June 30, 2023

The District has been working on staffing up and training financial reporting, grant accounting, and other Finance office staff. We are enhancing our financial close process by ensuring that all month end and year end tasks are documented and implemented. We do have a year-end task list that specifies the actions required. There are also role specific task lists in General Accounting. These will be compiled all in one place and reviewed to ensure they are up to date and match the tasks that are needed.

For the preparation of the ACFR and SEFSA, proper controls and tasks are being redesigned to ensure that the general ledger is accurate throughout the year. This will aid in the year-end process when compiling and reviewing the financial statements to ensure accuracy. Staff members are being trained up in order to better and properly review the District's financials. This is imperative to have the knowledge to be able to review and submit proper information before final publication/submission.

Baker Tilly's Updates, June 30, 2023

This comment will be reevaluated during the 2024 audit.

• Audit Readiness, Timely Submissions and Accurate Financial Data

For the fiscal year 2023 audit the District had significant delays in providing the requested data needed to assist in ensuring that materially accurate financial statements were prepared. These delays were a result of many factors but mainly due to the lack of knowledge and experience at the management level within the finance department. This resulted in improper recording of transactions and inaccurate reconciliations. The use of, and reconciliation of workpapers and subsidiary ledgers to, trial balances was not occurring. The appropriate use of reconciliations for federal and state revenues and expenditures is just one example. The applicable source documents (i.e., reconciliations, claim forms, trial balances) were not initially used to reconcile federal and state revenue/expenditures, receivables and unavailable revenue. Upon appropriate individuals getting involved from the finance department and use of a third party materially accurate data was obtained.

Individuals in a management position within the finance department need to possess the appropriate level of skills, knowledge and experience to assist in ensuring complete, timely and accurate information is not only available at year-end but also throughout the year. The District's general ledger system, which produces trial balances, has to be used throughout the year to reconcile balance sheet accounts (i.e., cash, due from other governments, accounts receivable, accounts payable, accruals etc.) and federal and state claim forms. It is critical that trial balances guide reporting - both internal and external – as they are what are used for year-end financial reporting.

In addition to the above, there were numerous missed deadlines that occurred related to the fiscal year 2023 (FY23) audit. These missed deadlines included the filing of final claim forms with DPI, FY23 Auditor certification and fund balance report, FY23 Annual report filing to DPI by the District, FY23 audited financial statements to DPI by Baker Tilly, inability to meet the ACFR reporting deadlines and therefore, certificate of achievement not able to be obtained for the FY23 report, District aid certification and finally, the filing related for the continued disclosure requirement related to District outstanding debt.

Management's Response, June 30, 2023

The Office of Finance recognizes that the 2023 financial statements were issued one year past DPI submission deadline. The 2024 financial statements audit is on an accelerated timeline as it is commencing after its normal due date to DPI. However, the timeline developed for the preparation of financial statements as well as audit fieldwork was collaboratively planned in order to arrive at an achievable goal of issuing the 2024 ACFR and SEFSA.

The District, as noted above, is ensuring that processes are in place to return to a normal schedule for the FY25 ACFR and audit. The Office of Finance is committed to ensuring that year end tasks will be on a set schedule to ensure audit readiness by the mutually agreed upon start of audit fieldwork going forward.

- **Journal Entry Deletions**

As part of the audit we test journal entries to evaluate whether proper internal control exist over the journal entry process. During the audit process we noted that line items that had previously been in the general ledger detail were no longer there. We inquired of management in place at that time and it was noted that journal entries were deleted from the system. When management was asked for the policy and/or procedures surrounding this there was nothing they could provide.

Proper internal controls would include a system that will not allow a journal entry to be deleted but require a reversal of the inaccurate journal entry and the creation of a new journal entry. We would recommend documenting the controls over journal entry processing and that the District considers removing this as an option in their financial system.

Management's Response, June 30, 2023

The Office of Finance has restricted the ability to undo and delete transactions from most end users and continues to evaluate the security related to this access. In alignment with the DPI CAP 2.0 plan, a formal journal entry process is also in the creation phase. This will be added to the office's formal policies and procedures.

- **Year- End Accounts Payable Analysis**

During our audit work on the schedule of federal and state awards there were issues noted with some of the grants reconciling with actual expenditures in the general ledger to what was claimed. This led the District to re-evaluate their process for determining proper period for recording of year-end accounts payable. This analysis resulted in noting that were some invoices that were not factored into their analysis of year-end Phase II accruals due to them being inaccurately flagged or not flagged at all as a FY23 or FY24 expenditure. In September, 2024, the District performed another search and determined additional items that needed to be recorded as accounts payable. We would recommend that the year-end process for the recording of accounts payable be evaluated and updated as needed to ensure that all transactions that should be included in a given year are.

Management's Response, June 30, 2023

The Office of Finance has evaluated its year-end process of AP transactions that occur after June 30th. The process was updated formally and executed for the FY24 year-end accruals. As specified in the DPI CAP 2.0 plan, this process will again be evaluated, reviewed and updated as necessary.

- **Budget Reporting**

Budget data is used throughout the year to evaluate progress made towards year-end goals and to monitor revenue generation and spending to ensure compliance with Milwaukee Board of School Directors approved and amended budgets and to meet expectations related to resources that may be needed to cover any budget shortfalls. As part of the year-end financial reporting process budget to actual comparison schedules are typically included in the District's ACFR. During the reconciliation of those schedules to the data that was included in BusinessPlus and to the related trial balances and to what the board approved, significant variances were noted. It was also noted that there appeared to be a lack of knowledge regarding what should be included in these schedules and BusinessPlus. There was no one that could initially explain the difference between the system balances and the actual Milwaukee Board of School Directors adopted and revised (amended) budgets.

In addition, the District's budget policy, as noted in the annual ACFR, states the following:

- During the year, budgets can be amended by approval of a majority of the members of the board.
- As a management practice, the superintendent, or his or her designee, may transfer funds between functions at the department, school, or program level subject to the following criteria:
 - The transaction does not exceed \$100,000
 - Is not initiated by a Board member
 - Will not effectuate a change in policy
 - Will not create a new area of activity for the District
 - Does not increase authorized staffing levels
 - Does not move monies between statutory funds

We were not able to determine if the District followed the policy as noted.

Management's Response, June 30, 2023

The Office of Finance will work to implement the remediation of this finding. We will review and enhance training opportunities related to the preparation and approval of budget items, and review/revise written standard operating procedures to monitor and control activities in alignment with MPS policy and practices. This will minimize institutional knowledge loss that may result from staff turnover. The Office of Finance will work with IT and the District's financial system vendor to evaluate the opportunity to tighten control of budget versions which have been approved by the Board.

The Office of Finance follows board policy when considering requested budget changes. Administrative budget transfer allowed by policy are presented to the Board for informational purposes.

- **Deficit Cash Held by the City of Milwaukee**

Cash balances are tested and confirmed as part of the annual audit process. During this procedure it was noted that cash held by the City for the District in two out of three accounts at June 30, 2023 had a deficit balance of approximately \$141 million. This deficit is explained by the District spend during the year exceeding the cash coming into the District. This also presents the fact that the City ultimately "loaned" the District the resources to cover the shortfall. When we inquired of MPS management we were told that the deficit was a temporary situation and due to the timing of when ESSER funds were claimed and when the cash for those claims received. At the time this explanation did justify the situation, however, we believe cash held by the City continues to be a deficit balance currently. Timely (i.e., monthly) reconciliations of these accounts could assist the District in better managing the cash flow of the District.

Management's Response, June 30, 2023

Timely reconciliations are now completed at City Hall. For Fiscal year end June 30, 2023 and June 30, 2024, a deficit was noted. The Office of Finance is investigating this and using cash analysis tools going forward to improve monitoring and controlling activities related to cash management.

- **Employee Receivables including Milwaukee Public Schools University (“MPSU”) and Liquidated Damages**

The District has several situations in which an employee would owe money to the District. One of the programs is MPSU. This program provides discounted costs to employees for courses. Employee’s costs were being accounted and paid for through payroll deductions. If an employee failed to complete the courses and “graduate,” the employee is required to reimburse the District based on sponsorship agreements in place. The District is unable to provide an accurate current listing of participants, status of courses and potential amounts owed to the District. There are no specific policies or procedures documented regarding monitoring outstanding amounts owed, compliance with sponsorship agreements, how amounts owed should be collected and determination of when amounts owed should be forgiven.

Another situation in which an employee would owe the District money is when he or she voluntarily resigns from the District within a certain timeframe. Liquidated damages are then assessed to the employee based on when this resignation is given compared to the end of the school year. There are no specific policies or procedures documented regarding the timeline for assessing liquidated damages, monitoring outstanding amounts owed, how amounts owed should be collected and determination of when amounts owed should be forgiven.

In previous audits, it was also noted that inaccurate employee payroll deductions were being made. Reports received from the payroll department showed participants with amounts owed that have no deductions set up or employees that currently had payroll deductions but were not included in any HR records as being enrolled in MPSU or through a partner university or college program. The District currently does not have a policy or procedure in place outlining the timeline or requirements for these employee deductions and procedures have noted that these are not being done in a timely manner or deduction amounts are so low they would take an unreasonably long period to repay. Accordingly, the control deficiencies noted above are considered to be a material weakness.

The District has the option to send unpaid amounts to collections in an effort to recoup the money from employees. It was noted during 2022 that no amounts were sent to collections since 2015. The District has re-started sending items to collections in Fall of 2022 after all the legal notifications have been met.

We recommend that the District evaluate the procedures and policies needed for the MPSU program as well as any other employee reimbursements. Documented policies and procedures should be created outlining responsibilities for tracking amounts owed and collections, process for forgiveness and process for collecting amounts owed. The District should also create a comprehensive listing of all amounts owed by employees related to specific programs. Lastly, we recommend that the District evaluate all payroll deductions related to the program and maintain documentation related to scholarships and cancelled tuition debt to verify that payroll deductions are occurring for all applicable participants.

Management’s Response, June 30, 2021

Since MPS-U was moved under the Office of Human Resource this fiscal year, steps have been taken to review and document policies and procedures related to tuition payments and collection of monies owed by employees. We agree that the payroll deduction process needs to be reviewed, and appropriate documentation maintained. We will continue to work on improving documentation and establishing a process to verify payroll deductions.

Management’s Response, June 30, 2022

The Office of Human Resources created (and filled) an Accountant position that is dedicated to MPS-U. This employee manages all whole and individual employee costs, financial support, and works collaboratively with the Payroll department to ensure payroll deductions are scheduled and in accordance with the terms of the learner agreement signed by the participating employee. Payroll deductions are monitored and individual statements identifying outstanding balances are sent twice a year to all participating employees. A written procedure for tracking and reporting participating employees that fail to meet the terms and conditions of their signed learner agreement has been created.

Baker Tilly's Updates, June 30, 2023

This comment has been addressed during FY23.

- **Contract Invoicing Support**

During our review of invoices and related supporting documentation on third-party contracts that provide services to the District, we noted the following issues. They are as follows:

1. Invoices were provided to and ultimately paid by the District that included an hourly or overtime rate that did not match the agreed upon rates specified in the signed contract.
2. The process for reviewing and approving the supporting documentation for the hours worked by contracted individuals that were billed to the District was not consistently applied or verified.
3. Invoices when sent to the District by the third party for payment were not agreed to supporting documentation because supporting documentation in some cases was not provided by the contracted staff to the individual responsible for approval.
4. Final reviewed contracts by the City Attorney were not being timely obtained and contracts were not posted to the Office of Accountability and Efficiency's website.
5. Monthly payment to a consultant was made based off a prorated contract budget and not based on actual hours worked.
6. Documentation of the authorized rates to be paid on invoices is not readily available for departments to verify the proper hourly rates are charged.
7. Verbal negotiation of rates was done on some contracts that was not documented.
8. There was a lack of monitoring of spending over blanket contracts.
9. DFMS has an encumbrance and expenditure authorization list that does not match the Department Expenditure Authorization Form on file in the finance department. DFMS invoices are being approved for payment by individuals that are not authorized by the finance department and in some cases, who are not on the DFMS authorization listing.

Management's Response, June 30, 2020

The District agrees that proper policies, procedures and related controls should be consistently applied in regards to contract invoicing and approval. Standard contract language includes: "No payment shall be made until a properly submitted invoice is approved. A properly submitted invoice must include a detailed description of the dates and times worked, and the tasks performed." The contract sponsor in consultation with the Department of Procurement & Risk Management will determine if additional supporting documentation should be detailed in the contract to be reconciled with the invoice. The District will work to provide further communication regarding the invoice approval processes.

Management's Response, June 30, 2021

The District agrees that proper policies, procedures and related controls should be consistently applied in regard to contract invoicing and approval. Standard contract language includes: "No payment shall be made until a properly submitted invoice is approved. A properly submitted invoice must include a detailed description of the dates and times worked, and the tasks performed." The contract sponsor in consultation with the Department of Procurement & Risk Management will determine if additional supporting documentation should be detailed in the contract to be reconciled with the invoice. The District will work to provide further communication regarding the invoice approval processes.

The District will provide retraining with stressing the importance of a properly submitted invoice in all training sessions for staff.

Management's Response, June 30, 2022

The District will continue to provide regular training to ensure the contract sponsor is conducting a three-way match before approving an invoice for payment. The District will communicate and stress the importance of this review to contract sponsor and accounting staff. Additionally, on a quarterly basis, the District will randomly select a predetermined number of disbursements and review to ensure each payment was appropriate and the process is working as designed.

Management's Response, June 30, 2023

In FY24 a three-way match review process was implemented by Finance-Accounts Payable. This review is scheduled two, no more than three times each fiscal year and will include reviewing vendor payments processed from all MPS Departments. This review entails ensuring that the MPS contract language and rates match the invoice amount and services paid, that proper supporting documentation for hours accompanied the invoice. The district has continued to provide LMS courses and reminders through the districtwide Superintendent's Thursday Updates. Additionally, Procurement has already implemented processes to ensure that there are exhibits/attachments to the contracts that have the approved hourly rates. Currently, there are processes being designed by Procurement to mitigate the overspending of blanket payments. Finally, the Office of Accountability and Efficiency will be updating its process to track the status of contracts transmitted to the City for execution in order to follow up on untimely return of these executed contracts.

Baker Tilly's Updates, June 30, 2023

This comment will be reevaluated during the 2024 audit.

Accordingly, the control deficiencies noted above are considered to be a material weakness.

We would recommend that the District work to ensure proper policies, procedures and any related controls are in place, and consistently applied, so as not to allow the above situations in the future and to safeguard the District from excess charges. We would also recommend that the District work to verify employees are aware of these policies and procedures, so they are able to review supporting documentation provided with an invoice to verify proper amounts are being paid.

The District's written responses to the material weaknesses identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We identified the following deficiencies as significant deficiencies:

- **Equipment and Real Property Management**

In accordance with 2 CFR 200.313(d)(1), property records must be maintained that include a description of the property, a serial number or other identification number, the source of funding for the property (including the FAIN), who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the project costs for the Federal award under which the property was acquired, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

The District maintains a list of capitalized equipment in BusinessPlus using the Fixed Asset module. However, of the pieces of equipment sampled, there was one put into service in January 2023 but was not entered into BusinessPlus until the subsequent fiscal year. Additionally, the other pieces of equipment sampled did not contain all the required information in BusinessPlus.

The following pieces of information were missing from the listing:

- the source of funding for the property (including the FAIN),
- who holds title, and
- the sales price of the property, if disposed.

We recommend that the District enter capital assets into BusinessPlus in a timely manner and record all the information required by the Uniform Guidance.

Management's Response, June 30, 2023

Capital Assets will be entered into BusinessPlus in a timely manner which is within 30 days of physical receipt of the asset. BusinessPlus was adjusted to accept the source of funding information and account code used. This will be updated in the policies and procedures.

- **Medicaid IEP Ratio Calculation**

According to the Wisconsin School-Based Services Medicaid Cost Report and Cost Settlement Training Guide, the IEP ratio is reported within the General and Statistical Information section of the online annual cost report and is used to apportion Medicaid allowable costs versus total special education costs for direct medical services. The IEP ratio is made up of the Number of Unique Medicaid Eligible with a prescribed Medical Service in the IEP (numerator) and the Number of Unique SPED Students with a prescribed Medical Service in the IEP.

The numerator of the IEP ratio reported in the FY22 annual cost report was not supported by the list of Medicaid-eligible students and was overstated by 57 students. The ratio reported in the annual cost report was 32.29% and the ratio calculated based on the number of Medicaid-eligible students should have been 31.59%. The District was able to resubmit the FY22 IEP ratio and did so once it was brought to their attention.

We recommend the IEP ratio be supported by a list of Medicaid-eligible students and a list of the total number of IEP students that receive a medical service. We would also recommend a review of the ratio's accuracy by someone other than the preparer.

Management's Response, June 30, 2023

The Milwaukee Public School District, specifically the Department of Financial Planning and Budget Services, oversees important Medicaid compliance tasks like billing, quarterly reports, the finalization of the IEP Ratio, and annual reports. To avoid any future findings, the office is taking the following actions: First, the Department is working on better training and understanding of Medicaid compliance tasks. They have hired additional staff members to help review their procedures for Medicaid activities. This review will ensure that all necessary tasks and deadlines are clearly documented with instructions for completing each task. These materials will be updated annually and shared with District staff and third-party vendors, such as MJ Cares and PCG, to keep everyone informed on the required tasks and how to finish them correctly. Additionally, the Director of Financial Planning and Budget Services is focused on retaining knowledge and ensuring accountability for successful results. Staff members are being cross trained within their department and are also collaborating with others, including the Office of Finance and the Office of Specialized Services. Department leaders will hold quarterly meetings with staff to make sure all Medicaid activities are carried out properly. the specific actions to be taken to eliminate or mitigate the recurrence of the finding.

- **Proper Licensing**

Wisconsin Statute 118.44(4)(a) provides three strategies that can be used in meeting the requirements for the Achievement Gap Reduction program. In addition to these strategies, teachers charged to the program should be properly licensed.

During our sampling for the program it was noted that not all teachers held valid licenses and therefore expenditures were charged to program that may not eligible costs.

We recommend that a review of individuals charged to the various federal and state programs occurs periodically to ensure that they have an active and appropriate license.

Management's Response, June 30, 2023

The District will review compliance procedures with the Office of Human Resources and Office of School Administration related to Administrative Policy 6.23 (2). Compliance procedures will be reviewed with the Department of State & Federal Programs (in the Office of Finance) on costs allowed for specific grants. Budget to actual monitoring procedures will be reviewed with the Office of Finance, Department of Financial Planning and Budget Services to ensure they are aligned with the compliance procedures of the Office of Human Resources and the Office of School Administration. The Department of Financial Planning and Budget Services will create written standard operating procedures detailing the process by which personnel costs are reviewed to ensure they are allowable and allocable to the specific program objectives allowed under federal or state funded grants; and the process by which unallowable costs are reclassified prior to fiscal year close as well as the process by which unlicensed staff are reassigned to a valid job/position in the HRIS (PeopleSoft). This procedure will accompany the monthly budget to actual analysis and should be completed no later than the close of the fiscal year to ensure costs are accounted for properly. The Department of Financial Services, Grant Accounting will review procedures to ensure grant managers are notified at least quarterly of under or overspending on grant awards. The Department of Financial Services will include this as a requirement in the Year End Task List improving the visibility of this risk. The Office of Finance's senior management will monitor for compliance.

Other comments and recommendations

Construction in Progress

As part of our review over capital assets, we reviewed a sample of transactions that were included in construction in progress. There were multiple items in the sample that should not have been included in construction in progress as they were maintenance and repair transactions that should not have been capitalized. We recommend that the District review details of what is coded to construction in progress prior to audit testing to verify that the costs are actually capital in nature and properly reported.

Management's Response, June 30, 2021

MPS agrees with the recommendation that the District review details of what is coded to construction in progress to verify that the costs are actually capital in nature and properly reported. The district has developed a multi checkpoint process to review and verify capital costs and properly record and report them. This review process will include initial processing and review by the facilities accountant, a review by the financial reporting accountant followed by the accounting manager approval and a subsequent review and financial reporting manager for accuracy.

Management's Response, June 30, 2022

The District will enhance and document the process related to Construction in Progress to ensure costs are properly classified and recorded. Specifically, the current process will be conducted on a quarterly basis, rather than an annual basis. The process includes initial processing by the facilities accountant, review by the financial reporting accountant, and approval by an accounting manager and financial reporting manager.

Management's Response, June 30, 2023

Beginning in FY24, a yearly review is done with members of the Office of Finance and the Department of Facilities and Maintenance Services to review items listed as capital assets in the AiM system. A quarterly review is completed by the DFMS accountant and general accounting manager to keep items that are tied to construction in progress and remove items that are not.

Baker Tilly's Updates, June 30, 2023

This comment will be reevaluated during the 2024 audit.

Capital Asset Activity

During our review of the capital asset activity of the District for FY23 it was noted that there was no formal process used to review disposals of assets that occurred during the year. This resulted in items remaining on the capital asset listing that were no longer in use or in the possession of the District. We recommend that a formal process for this review be developed. This process would need to include full cooperation from the Department of Facilities and Management by providing complete and accurate data to support what should be disposed of and when. As part of this process there should be a focus on the intangible asset area, specifically software.

Management's Response, June 30, 2023

A formal, yearly process began March, 2024. The Office of Finance provides a listing of fully depreciated items throughout the district. Various schools and departments must confirm if the items are still in use, or if they items are no longer in use. If the items should be disposed of, the MPS fixed asset disposal process must be followed.

Timeliness of Time and Effort Reporting

The District certified the semi-annual certifications for the Spring 2023 semester in October and November 2023. This would typically be after the final claims would be due to DPI however, the final claim for the FY23 grant was not submitted until December 2023. Timely certification should be completed so that payroll costs charged to the grant are supported before the final claims are due to DPI.

Management's Response, June 30, 2023

The Office of Finance State and Federal Programs department has advanced the District's semi-annual certification timeline for the Spring semester each year since Spring 2023. We remain committed to improving this process.

Actuarial Census File

During review of the actuarial census files used in the participant testing, we identified errors in the status of four individuals in the Teacher Plan. These individuals had a status of "Retiree" when they were supposed to be identified as "Beneficiary." Baker Tilly (BT) discussed this error with Carol who ultimately determined the status was incorrect and noted it would be updated. There were also three individuals in the Admin Plan that were added to the current year but were excluded from the prior year census. We understand management has performed additional procedures again this year to ensure the demographic data sent to the actuary is complete and accurate.

Recommendation

We recommend management continue with their review over the next year to substantiate information used in the actuarial report. Any support and documentation used for changes made to the census file should be maintained in the employee's file.

Management's Response, June 30, 2019

The pension department will work with the actuary and review the census file before it goes to the auditor to ensure the employee status and years of service, they calculated is reasonable/accurate. The pension department will also recommend that the actuary only include pertinent data as it relates to the current audit and eliminate any unnecessary columns. The auditor should also consult with the actuary or pension department during the audit if there is something that seems inconsistent or questionable from year to year.

Management's Response, June 30, 2020

The pension department will continue to review the census file prepared by the actuary before it goes to the auditor to ensure the employee status and years of service, they calculated is reasonable/accurate. This year the actuary only included pertinent data as it relates to the current audit and eliminate any unnecessary columns. The auditor should also consult with the actuary or pension department during the audit if there is something that seems inconsistent or questionable from year to year.

Management's Response, June 30, 2021

Human Resources will annually do a full comparison of the census file against the Pension database to ensure that all retirees have the correct status going forward. Human Resources also did a thorough review of the Admin Plan to ensure that all eligible individuals are included.

Management's Response, June 30, 2022

No changes to the response from June 30, 2021.

Management's Response, June 30, 2023

No changes to the response from June 30, 2021.

Baker Tilly's Updates, June 30, 2023

This comment will be reevaluated during the 2024 audit.

Service Organization Control 1 Report (SOC 1 Report) Review

We noted the SOC 1 report for the District's third party is not reviewed on a periodic basis.

Recommendation

Management should obtain an SOC 1 report on internal controls for all third-party service providers (TPA) and review and analyze the report to ensure their services and controls are reputable, safe and secure. Management should also be sure to adequately address the user control considerations listed in the SOC one report as the TPA assumes these controls are in place at your organization.

Management's Response, June 30, 2019

The pension department currently has internal controls in place to ensure that new pension payments or changes are paid correctly as indicated by the participant.

Management's Response, June 30, 2020

No changes to the response from June 30, 2019.

Management's Response, June 30, 2021

No changes to the response from June 30, 2019.

Management's Response, June 30, 2022

No changes to the response from June 30, 2019.

Management's Response, June 30, 2023

No changes to the response from June 30, 2019.

Baker Tilly's Updates, June 30, 2023

This comment will be reevaluated during the 2024 audit.

Financial Reporting Risks

As a result of internal controls walkthroughs, it was noted management is not aware of, nor participates in, any meetings that specifically address the issues of fraud. It was also noted that valuation methods are not documented in the trust agreement or plan committee minutes. Investment valuation methods have no support on how they are calculated. It was also noted that purchases and sales of investments are not reviewed to determine that fair value is appropriately utilized.

Recommendation

We recommend the discussion of fraud be included in meetings that may currently already be held. It is also recommended that detailed minutes or meeting notes/agendas are maintained to help support management activity, deliberations held and action items to substantiate matters discussed at the meeting. It is best practice to maintain investment valuation method support and review investment purchases and sales.

Management's Response, June 30, 2019

The pension department will take this into consideration and determine if it is necessary to have this discussion at internal meetings going forward.

Management's Response, June 30, 2020

No changes to the response from June 30, 2019

Management's Response, June 30, 2021

Human Resources intent is to establish a Pension Committee that will meet periodically to review the investment performance and activity of the plans.

Management's Response, June 30, 2022

No changes to the response from June 30, 2021.

Management's Response, June 30, 2023

Human Resources has established a Retirement Plan Committee which was approved by the Board. This committee has started to meet in 2024 to review investment performance and activity of the plans. The committee will consider recommendations.

Baker Tilly's Updates, June 30, 2023

This comment will be reevaluated during the 2024 audit.

IT Assessment Scope

In support of Milwaukee Public Schools' Financial Statement Audit, Baker Tilly must gain an understanding of the financial systems and the IT control processes that support each of the below applications. This was completed to allow the financial statement audit team to adjust work based on the level of IT risk related to significant processes affecting financial reporting. The assessment is based on 15 IT general controls based on industry-leading practices including: the COBIT framework, ISO standards, and IT Infrastructure Library (ITIL) process models.

Baker Tilly identified the following applications in scope related to the financial statement audit:

- IFAS
- PeopleSoft
- AIM
- Horizon One Source

In addition to the in-scope systems, Baker Tilly is required to gain an understanding of Milwaukee Public Schools' IT network infrastructure and controls that support the security of the IT environment.

The intention of the recommendations is to focus on IT general control improvement opportunities and will not comment on the many robust areas of the District's systems and procedures.

In this regard, Baker Tilly offered four recommendations to the Technology team as an opportunity to improve IT controls. Technology provided a response to the recommendations. However, to avoid disclosing potential District IT vulnerabilities or system architecture publicly, we have agreed with Technology management to exclude these items from this report. Baker Tilly will provide these recommendations in a separate communication to the Milwaukee Board of School Directors.

The District's written responses to the other comments and recommendations identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Required communications

Qualitative aspect of accounting practices

- Accounting policies: Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we have advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by District are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing accounting policies was not changed during 2023. We noted no transactions entered into by the District during the year for which accounting policies are controversial or for which there is a lack of authoritative guidance or consensus or diversity in practice.
- Accounting estimates: Accounting estimates, including fair value estimates, are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements, the degree of subjectivity involved in their development and because of the possibility that future events affecting them may differ significantly from those expected. The following estimates are of most significance to the financial statements:

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Accrued compensated absences	Evaluation of hours earned and accumulated in accordance with employment policies and average wage per hour rates	Reasonable in relation to the financial statements as a whole
Net pension liabilities (asset) and related deferrals	Evaluation of information provided by the Wisconsin Retirement System, Employees' Retirement System of the City of Milwaukee, Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan and Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers	Reasonable in relation to the financial statements as a whole
Self-insurance claims	Historical claims analysis and report provided by a third-party administrator	Reasonable in relation to the financial statements as a whole
Allowance for doubtful accounts	Evaluation of historical revenues and loss levels with the analysis on collectability of individual amounts	Reasonable in relation to the financial statements as a whole
Net/Total OPEB liability and related deferrals	Key assumptions set by management with the assistance of a third-party actuary	Reasonable in relation to the financial statements as a whole
Depreciation	Evaluate estimated useful life of the asset and original acquisition value	Reasonable in relation to the financial statements as a whole

Estimate	Management's process to determine	Baker Tilly's conclusions regarding reasonableness
Pension trusts actuarial value of plan assets and actuarial accrued liability	Key assumptions (investment rate of return, projected salary increases, mortality and certain cost amortization periods) set by management with the assistance of an independent third-party actuary	Reasonable in relation to the financial statements as a whole

There have been no significant changes made by management to either the processes used to develop the particularly sensitive accounting estimates, or to the significant assumptions used to develop the estimates, noted above.

- Financial statement disclosures: The disclosures in the financial statements are neutral, consistent and clear.

Significant unusual transactions

There have been no significant transactions that are outside the normal course of business for the District or that otherwise appear to be unusual due to their timing, size or nature.

Significant difficulties encountered during the audit

We encountered the following significant difficulties in dealing with management and completing our audit.

- Significant delays in management providing required information
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- Lack of cooperation and communication by certain departments and individuals.

Disagreements with management

Professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are reporting that no such disagreements arose during the course of our audit that remained unresolved as of the time of issuance.

Audit report

There have been no departures from the auditors' standard report.

Uncorrected misstatements and corrected misstatements

Professional standards require us to accumulate misstatements identified during the audit, other than those that are clearly trivial, and to communicate accumulated misstatements to management. The schedule within the attachments summarizes the uncorrected misstatements, other than those that are clearly trivial, that we presented to management and the material corrected misstatements that, in our judgment, may not have been detected except through our auditing procedures are shown below. Management is in agreement with the misstatements we have identified, and they have been corrected in the financial statements. Management has determined that the effects of the uncorrected misstatements noted in the attachment are immaterial, both individually and in the aggregate, to the financial statements as a whole. The uncorrected misstatements or the matters underlying them could potentially cause future period financial statements to be materially misstated, even though, in our judgment, such uncorrected misstatements are immaterial to the basic financial statements under audit. The internal control matters section of this report describes the effects on the financial reporting process indicated by the corrected misstatements, other than those that we consider to be of a lesser magnitude than significant deficiencies and material weaknesses.

Description	Amount
To properly record accrued wages	\$ 7,648,875
To move expenditures to the Long-Term Capital Improvement Trust Fund	1,847,040
To record unavailable revenue	217,806,372
To record additional accounts payable	8,952,079
To adjust nutrition accounts receivable	442,601
To adjust categorical fund accounts receivable	5,349,527
Reverse unearned revenue in nutrition fund	6,809,843
To update balances in fund 73	4,984,770
To record contributions paid in July	5,717,437

Other audit findings or issues

We encountered no other audit findings or issues that require communication at this time.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Management's consultations with other accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing or accounting matters.

Written communications between management and Baker Tilly

The attachments include copies of other material written communications, including a copy of the management representation letter.

Compliance with laws and regulations

We did not identify any non-compliance with laws and regulations during our audit.

Fraud

We did not identify any known or suspected fraud during our audit.

Going concern

Pursuant to professional standards, we are required to communicate to you, when applicable, certain matters relating to our evaluation of the District's ability to continue as a going concern for a reasonable period of time but no less than 12 months from the date of the financial statements, including the effects on the financial statements and the adequacy of the related disclosures, and the effects on the auditor's report. No such matters or conditions have come to our attention during our engagement.

Independence

We are not aware of any relationships between Baker Tilly and the District that, in our professional judgment, may reasonably be thought to bear on our independence.

Related parties

We did not have any significant findings or issues arise during the audit in connection with the District's related parties.

Other matters

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information, and we do not express an opinion or provide any assurance on it.

Nonattest services

The following nonattest services were provided by Baker Tilly:

- Proposed adjusting journal entries
- Assistance in preparing financial statements and schedules of expenditures of federal and state awards
- Preparation of auditee section of the data collection form

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

Milwaukee Board of School Director's resources

Visit our resource page for regulatory updates, trending challenges and opportunities in your industry and other timely updates.

Visit the resource page at <https://www.bakertilly.com/insights/audit-committee-resource-page>.

Management Representation Letter



**MILWAUKEE
PUBLIC SCHOOLS**

Office of Finance
5225 W. Vliet Street, Milwaukee, WI 53208
(414) 475-8440 • mps.milwaukee.k12.wi.us
Fax (414) 475-8387

December 20, 2024

Baker Tilly US, LLP
790 N Water Street, Suite 2000
Milwaukee WI, 53202

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audit of the financial statements of Milwaukee Public Schools (the "District") as of June 30, 2023 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Milwaukee Public Schools and the respective changes in financial position, in conformity with accounting principles generally accepted in the United States of America (GAAP). We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 15, 2020.
- 2) The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. The financial statements include all properly classified funds of the primary government required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Start. Stay. Succeed.
Comienza. Quédate. Triunfa.

- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, if any, are reasonable.
- 6) All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the financial statement date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
- 7) All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
- 8) We believe the effects of the uncorrected financial statement misstatements listed in the attachment are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
- 9) All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
- 10) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the appropriate accounts.
- 11) There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
- 12) Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

- 13) We have provided you with:
 - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of Milwaukee Board of School Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

- 14) We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 15) We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a) Management,
 - b) Employees who have significant roles in internal control, or
 - c) Others where the fraud could have a material effect on the financial statements.
- 16) We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
- 17) We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 18) There are no related parties or related party relationships and transactions, including side agreements, of which we are aware.

Other

- 19) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices, other than those for which you have made us aware of.
- 20) We have taken timely and appropriate steps to remedy fraud, noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.
- 21) We have a process to track the status of audit findings and recommendations.
- 22) We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 23) We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
- 24) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
- 25) The District has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources or fund balance or net position.
- 26) We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

27) There are no:

- a) Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
- b) Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
- c) Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
- d) Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- e) Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

28) In regards to the nonattest services performed by you listed below, we acknowledge our responsibility related to these nonattest services and have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

- a) Proposed adjusting journal entries
- b) Preparation of auditee sections of the data collection form
- c) Assistance in preparing financial statements and schedules of expenditures of federal and state awards

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

- 29) Milwaukee Public Schools has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 30) Milwaukee Public Schools has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
- 31) The financial statements include all fiduciary activities required by GASB No. 84.
- 32) The financial statements properly classify all funds and activities.
- 33) All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.

- 34) Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
- 35) Milwaukee Public Schools has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
- 36) We believe that we have properly identified all derivative instruments and any embedded derivative instruments that require bifurcation. The utility's hedging activities, if any, are in accordance with its documented and approved hedging and risk management policies. The utility follows the valuation, accounting, reporting and disclosure requirements outlined in GASB No. 53. We believe the timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives and hedged items have been determined based on prevailing market prices or by using financial models that we believe are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at year end.
- 37) Provisions for uncollectible receivables, if any, have been properly identified and recorded.
- 38) Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
- 39) Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
- 40) Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
- 41) Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
- 42) Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
- 43) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
- 44) Tax-exempt bonds issued have retained their tax-exempt status.
- 45) We have appropriately disclosed Milwaukee Public Schools's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
- 46) We are following our established accounting policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the fund balance classifications for financial reporting purposes.

- 47) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
- 48) With respect to the supplementary information, (SI):
- a) We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
 - b) If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
- 49) We assume responsibility for, and agree with, the findings of specialists in evaluating the other post employment benefit obligations and pension obligations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
- 50) We assume responsibility for, and agree with, the information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.
- 51) We are responsible for the estimation methods and assumptions used in measuring assets and liabilities reported or disclosed at fair value, including information obtained from brokers, pricing services or third parties. Our valuation methodologies have been consistently applied from period to period. The fair value measurements reported or disclosed represent our best estimate of fair value as the measurement date in accordance with the requirements of GASB 72 – *Fair Value Measurement*. In addition our disclosures related to fair value measurements are consistent with the objectives outlined in GASB 72. We have evaluated the fair value information provided to us by brokers, pricing services or other parties that has been used in the financial statements and believe this information to be reliable and consistent with the requirements.
- 52) The auditing standards define an annual report as "a document, or combination of documents, typically prepared on an annual basis by management or those charged with governance in accordance with law, regulation, or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the financial results and financial position as set out in the financial statements." Among other items, an annual report contains, accompanies, or incorporates by reference the financial statements and the auditors' report thereon. We confirm that we do not prepare and have no plans to prepare an annual report.

53) With respect to federal and state award programs:

- a) We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *State Single Audit Guidelines*, including requirements relating to preparation of the schedule of expenditures of federal and state awards (SEFSA).
- b) We acknowledge our responsibility for preparing and presenting the SEFSA and related disclosures in accordance with the requirements of the Uniform Guidance and the State Single Audit Guidelines, and we believe the SEFSA, including its form and content, is fairly presented in accordance with the Uniform Guidance and the *State Single Audit Guidelines*. The methods of measurement and presentation of the SEFSA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFSA.
- c) If the SEFSA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFSA no later than the date we issue the SEFSA and the auditors' report thereon.
- d) We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and the *State Single Audit Guidelines* and included in the SEFSA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e) We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.
- f) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provide reasonable assurance that we are administering our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relevant to the programs and related activities.
- h) We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i) We have complied with the direct and material compliance requirements including when applicable, those set forth in the OMB Compliance Supplement and the State Single Audit Guidelines, relating to federal and state awards.

- j) We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k) We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- l) Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.
- m) We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n) We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- o) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p) We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q) No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.
- r) Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s) The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- t) We have charged costs to federal and state awards in accordance with applicable cost principles.
- u) We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and the *State Single Audit Guidelines* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- v) We are responsible for and have ensured the reporting package does not contain protected personally identifiable information.
- w) We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- x) We are responsible for preparing and implementing a corrective action plan for each audit finding.

- y) We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.


Sincerely,

Milwaukee Public Schools

Signed: 
Eduardo Galvan, Interim Superintendent

Signed: 
Aycha Sawa, Chief Financial Officer

Signed: 
Carol Eady, Senior Director, Pension,
Benefits and Compensation Services

Signed: 
Matthew Chason, Senior Director,
Office of Accountability and Efficiency

Milwaukee Public Schools

June 30, 2023

[illegible]

Client Service Team



Wendi M. Unger, CPA
Principal

790 North Water Street, Suite 2000
Milwaukee, Wisconsin 53202
United States

T +1 (414) 777 5423
wendi.unger@bakertilly.com



Michelle Walter, CPA
Senior Manager

790 North Water Street, Suite 2000
Milwaukee, Wisconsin 53202
United States

T +1 (414) 777 5576
michelle.walter@bakertilly.com



Stephanie Jacobs, CPA
Senior Manager

8626 North Himes Avenue
Tampa, Florida 33614
United States

T +1 (813) 915 5617
stephanie.jacobs@bakertilly.com

Accounting changes relevant to Milwaukee Public Schools

Future accounting standards update

GASB Statement Number	Description	Potentially impacts you	Effective date
100	Accounting Changes and Error Corrections	✓	6/30/24
101	Compensated Absences	✓	6/30/25
102	Certain Risk Disclosures	✓	6/30/25
103	Financial Reporting Model Improvements	✓	6/30/25
104	Disclosure of Certain Capital Assets	✓	6/30/26

Further information on upcoming [GASB pronouncements](#).

Revised guidance for accounting changes and error corrections

GASB Statement No. 100, *Accounting Changes and Error Corrections*, an amendment of GASB Statement No. 62, seeks to provide more understandable, reliable, relevant, consistent and comparable information for making decisions and assessing accountability.

The standard establishes the following categories:

1. Accounting changes, which is comprised of:
 - a. Changes in accounting principles – result from a change from one generally accepted accounting principle to another that is justified on the basis that the newly adopted principle is preferable to the previously applied principle, or the implementation of a new pronouncement.
 - b. Changes in accounting estimates – occur when inputs change due to a change in circumstances, new information, or more experience. Note that the focus is on changes to the inputs used; a change in the value of an input such as an annual inflation update does not require disclosure under this standard.
 - c. Changes to or within the financial reporting entity – result from the addition or removal of a fund that results from the movement of continuing operations (such as moving sanitation operation from the general fund to its own separate fund), a change in a fund's presentation as major or nonmajor, the addition or removal of a component unit (with certain exceptions), or a change in a component unit's presentation as blended or discretely presented.
2. Error corrections - result from mathematical mistakes, mistakes in the application of accounting principles, or oversight or misuse of facts that existed at the time of the financial statements were issued (i.e., facts that could reasonably be expected to have been obtained and considered at that time).

A summary of the reporting impact of each category is as follows:

Reporting considerations	Accounting changes			
	Change in accounting principle	Change in estimate	Change to the financial reporting entity	Correction of an error
Basic financial statement schedules:	Restate earliest period presented	Report prospectively	Adjust current year beginning balances	Restate earliest period presented
Required supplementary information & supplementary information:	Should match the financial statement presentation noted above; no adjustments to earlier periods needed			Restate all periods impacted
Additional disclosures?	Yes	Yes	Yes	Yes

Updated accounting and reporting for compensated absences

The Governmental Accounting Standards Board (GASB) issued its Statement No. 101, *Compensated Absences*, in June 2022. The objective of GASB 101 is to update the recognition and measurement guidance for compensated absences for state & local government employers. It supersedes GASB No. 16, *Accounting for Compensated Absences*, issued in 1992, as well as earlier guidance, and addresses changes resulting from the types of leave now being offered. GASB 101 is effective for fiscal years beginning after December 15, 2023 (i.e., December 31, 2024, and June 30, 2025, year-end reporting entities).

GASB 101 more appropriately reflects a liability *when* a government incurs an obligation for compensated absences and will improve comparability of reporting between governments that offer different types of leave. It requires that liabilities be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid in cash or settled-up via non-cash means. Compensated absences are defined as leave for which employees may receive one or more of the following:

- Cash payments when the leave is used for time off;
- Other cash payments, such as payment for unused leave upon termination of employment, or;
- Noncash settlements, such as conversion to defined benefit postemployment benefits.

Examples of compensated absences provided in GASB 101 include vacation, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, and certain types of sabbatical leave. Payment or settlement of compensated absences could occur during employment, or upon termination of employment. GASB 101 does not apply to benefits that are within the scope of GASB 47, *Accounting for Termination Benefits*.

GASB 101 requires that a liability should be recognized for leave that has not been used if all of the following are true:

- The leave is attributable to services already rendered;
- The leave accumulates, and;
- The leave is “more likely than not” (i.e., likelihood of more than 50%) to be used for time off or otherwise paid in cash or settled through noncash means (101 provides factors to assess this criteria). (This differs from GASB 16, which required payment to be “probable” to be recognized).

Under GASB 101, governments will now need to accrue for time that has accumulated and is likely to be used, even if the employee is not eligible for a payout upon termination. This was not a requirement under GASB 16, and thus may result in a higher compensated absence liability.

GASB 101 requires liabilities for compensated absences to be recognized in financial statements prepared using the economic resources measurement focus equal to the amount of leave that has not yet been used and leave that has been used but not yet paid or settled. GASB 101 did not change the report for financial statements prepared using the current financial resources measurement focus (i.e., governmental funds).

Other changes in financial statement disclosures include the change in compensated absences liability can now be disclosed as a net change, rather than gross increases/decreases in the liability. Also, governments are no longer required to disclose which fund has typically liquidated the liability.

We recommend that governments begin to review the guidance contained in GASB 101 within the context of your existing compensated absences policies and accounting practices, in order to be better informed in terms of the information that you will need for this implementation.

New guidance on disclosure of certain risks

The requirements in GASB Statement No. 102, *Certain Risk Disclosures* is meant to provide financial statement users with information about certain risks when circumstances make a government vulnerable to a heightened possibility of loss or harm. It requires governments to disclose essential information about risks related to vulnerabilities due to certain concentrations or constraints.

- (a) The Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow or outflow of resources—for example, a small number of companies that represent a majority of employment in a government’s jurisdiction, or a government that relies on one revenue source for most of its revenue.
- (b) The Statement defines a constraint as a limitation imposed on a government by an external party or by formal action of the government’s highest level of decision-making authority—such as a voter-approved property tax cap or a state-imposed debt limit.

Concentrations and constraints may limit a government’s ability to acquire resources or control spending.

The Statement generally requires a government to disclose information about a concentration or constraint if all of the following criteria are met:

- (a) The concentration or constraint is *known* to the government prior to issuing the financial statements.
- (b) The concentration or constraint makes the government vulnerable to the risk of a substantial impact.
- (c) An event or events associated with the concentration or constraint that could cause a substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued.

The disclosures should include a description of the following:

- The concentration or constraint,
- Each event associated with the concentration or constraint that could cause a substantial impact if the event has occurred or has begun to occur prior to the issuance of the financial statements, and
- Actions taken by the government to mitigate the risk prior to the issuance of the financial statements.

Changes to the financial reporting model

GASB Statement 103, *Financial Reporting Model Improvements*, builds on Statement 34 by providing key targeted improvements to the financial reporting model. Its requirements are designed to:

- Enhance the effectiveness of governmental financial reports in providing information essential for decision making and assessing a government's accountability, and
- Address certain application issues.

The targeted improvements contained in Statement 103 establish or modify existing accounting and financial reporting requirements related to:

- Management's discussion and analysis - While the overall requirements do not substantially change management's discussion and analysis, the modifications are meant to improve the analysis included in this section and provide details about the items that should be discussed as currently known facts, decisions, or conditions expected to have a significant financial effect in the subsequent period.
- Unusual or infrequent items (previously known as extraordinary and special items) - The new Statement simplifies GASB literature by eliminating the separate presentation of extraordinary and special items. Under the requirement of Statement 103, applicable items will either be identified as unusual or infrequent, or both.
- Presentation of the proprietary fund statement of revenues, expenses, and changes in fund net position - The changes are designed to improve consistency around the classification of items in these statements by better defining what should be included in operating revenues and expenses and nonoperating revenues and expenses including, for example, the addition of subsidies received or provided as a new category of nonoperating revenues and expenses.
- Major component unit information, and Budgetary comparison information - Statement 103 is designed to improve the consistency of the reporting of major component unit information and budgetary comparison information by specifying required placement of that information.

Two-way audit communications

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - Identify types of potential misstatements.
 - Consider factors that affect the risks of material misstatement.
 - Design tests of controls, when applicable, and substantive procedures.
- c. We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations and provisions of contracts or grant programs. For audits performed in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.
- d. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.

Our audit will be performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines*.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, the Uniform Guidance, and the *State Single Audit Guidelines*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and the Uniform Guidance, and the *State Single Audit Guidelines*, in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the governing board has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. We anticipate that the District will receive an unmodified opinion on its financial statements.
- e. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- f. Have you had any significant communications with regulators or grantor agencies?
- g. Are there other matters that you believe are relevant to the audit of the financial statements?

Also, is there anything that we need to know about the attitudes, awareness and actions of the governing body concerning:

- a. The entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. If necessary, we may do preliminary financial audit work during the months of May or June. Our final financial fieldwork is scheduled during the fall to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means or wish to provide other feedback. We welcome the opportunity to hear from you.