

Reporting and insights from 2020 audit:

Milwaukee Public Schools

June 30, 2020



Executive summary

To the Board of Directors:

We have completed our audit of the financial statements of Milwaukee Public Schools (the "District") for the year ended June 30, 2020, and have issued our report thereon dated December 21, 2020. 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:

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- Michelle Walter, Senior Manager: Michelle.Walter@bakertilly.com or +1 (414) 777 5576

Sincerely,

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)

Baker Tilly US, LLP

Wendi M. Unger, CPA, Partner

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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.

Audit objectives



Audit objectives

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 Board of 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 state programs.

We are also required to communicate significant matters related to our audit that are relevant to the responsibilities of the Board of Directors, including:

- Qualitative aspects of the District's accounting practice including policies, accounting estimates and financial statement disclosures
- Significant difficulties encountered
- Disagreements with management
- Corrected and uncorrected misstatements
- Internal control matters
- Significant estimates
- Other findings or issues arising from the audit

Management's responsibilities

Management	Auditor
 <p>Prepare and fairly present the financial statements</p>	<p>Our audit does not relieve management or those charged with governance of their responsibilities</p>
<p>Establish and maintain effective internal control over financial reporting and compliance with laws, regulations, contracts and grants</p>	<p>An audit includes consideration of internal control over financial reporting, but not an expression of an opinion on those controls</p>
 <p>Compliance with the types of requirements described in the <i>OMB Compliance Supplement</i> and the <i>State Single Audit Guidelines</i></p>	<p>While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on compliance with those requirements.</p>
 <p>Provide us with written representations at the conclusion of the audit</p>	<p>See Appendix for a copy of management's representations</p>

Audit status



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



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

Other key 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 key areas of emphasis		
Cash and investments	Revenues and receivables	General disbursements
Payroll	Pension and OPEB liabilities	Long-term debt
Capital assets	Net position 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 our opinions 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:

- **Internal Control Over Financial Reporting**

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 levels to prepare financial reports throughout the year and at year-end.
- Complete and accurate financial statements, including footnotes, are prepared.
- Complete and accurate schedule of expenditures of federal and state awards is prepared.

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 federal and state awards 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.

Management's Response, June, 30, 2020

Management expects this finding is a onetime situation related to significant changes in key financial leadership. Comptroller, Financial Reporting Manager as well as the Accounting Manager position all saw personnel changes after year end. As we are re-staffing the department additional accounting support services are being utilized.

- Financial Reporting Manager position was filled in October, 2020. The Manager is continuing to develop reporting and verification tools to ensure accurate financial statements and footnotes. The Manager has also put in place a process for reviewing pending GASB pronouncements to ensure appropriate application and implementation to MPS.
- Finance management (Financial Reporting Manager, Comptroller and Chief Financial Officer) have developed tools to better ensure timely reporting, including a planning document for the subsequent year audit, as well as a calendar/timeline. The planning document includes notes for upcoming GASB pronouncements, potential improvements to PBC work-papers and other schedules to better ensure accuracy and other process reviews and improvements. The calendar/timeline will reflect significant audit and reporting due dates, with related tasks and processes to be completed to ensure deadlines are met and statements are completed on a timely basis.
- The grant accounting position is responsible for accurate and timely accounting for grant activity as well as preparation of the schedule of expenditures of federal and state awards. This position has been vacant since October. The Financial Reporting Manager, who is responsible for oversight of the grants team, has taken on this team management role in the interim.

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

The following material weakness, which was identified in the prior year, was remediated during the current year:

- Restatement of Prior Year Financial Statements

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 did not identify any deficiencies as significant deficiencies in the current year. The following significant deficiency, which was identified in the prior years has been remediated during the current year:

- Food Service Invoicing and Three-Way Match

The District's written responses to the material weakness, significant deficiency and status of prior year issues 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.

Other comments and recommendations

Transportation Reporting Detailed Records

During our review of the state transportation program, we noted that inaccurate reports provided by the IT department are being provided to the individual responsible for submitting the PI-1547. Due to this, incorrect pupil counts have been reported which lead to the incorrect amount of aid being received by the District. We recommend that the transportation department and IT department work together to verify that the programming scripts are accurate and in a format that provides accurate summary and detailed records for use in reporting.

Management's Response, June, 30, 2020

The data provided for PI1547 was correctly submitted to WI DPI. The issue that presented itself, and was subsequently corrected, involved the detail data that was needed for the department single audit. When extracted for testing, the detail data was 405 records short relative to the summary claim submitted to WI DPI for FY20. It was found that the detail scripts that were utilized to generate the report was missing a custom line of code that was included in the summary scripts. The missing code in the detail report pertained to new schools that were created that were claim eligible. The code was updated and the data for both the summary and the detail was consistent with each other. Both the summary and the detail scripts will be compared annually to ensure that updates necessary will be executed.

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Infinite Campus Address Corrections

Also during our review of the state transportation program, we noted that significant time and effort is spent in the transportation department correcting student addresses that were improperly input into Infinite Campus. This is needed to be done because an invalid address results in an incorrect presentation of zero miles transported for a given student. For transportation reporting, a student is reported in one of five mileage categories and differing amounts of aid are provided for each category. We recommend that the District review the processes in place for inputting or changing student addresses in Infinite Campus and consider implementing a control for review of accuracy to ensure the address is valid.

Management's Response, June, 30, 2020

Currently the Department of Student Services reviews address data weekly, and corrects errors as the errors are identified. Student Services also provides annual school secretarial training to prepare district personnel to efficiently perform the task of address creation or changes. Additionally, Student Services will institute on-going corrective address training district-wide to school-based staff around address creation/changes in Infinite Campus. Furthermore, the MPS On-Line Enrollment Application uses the City of Milwaukee address database which provides the correct City of Milwaukee address, to prevent invalid addresses being entered at the time of enrollment.

If an address is created that is not valid in Infinite Campus for any particular reason, transportation's 3rd party system Mapnet flags that address for correction by assigning a null value to the distance. This prevents inadvertent claims during the reporting process. Prior to submission, Pupil Transportation Services manually updates the distances for each invalid address prior to submission. In continued collaboration with the Department of Transportation, the Department of Student Services, will respond to any address insertion-based errors by district personnel with corrective training related to household address creation/changes.

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Trust Accounts

During our review of new trust accounts created in fiscal year 2020, three of the three new trusts tested did not have a Trust Agreement on file. We recommend that any new trust account that is created has a Trust Agreement kept on file with the District.

Management's Response, June, 30, 2020

The Office of Finance concurs and is implementing extra measures to ensure prior to establishing any new trust accounts that a Trust Agreement or documentation detailing the requirements of the Trust have been received.

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Food Service Three-Way Match

During the last several years, the District has worked to develop the food service three-way match procedure between 1) what is physically received at the school sites entered into OneSource, 2) the detailed invoices received in the food service department and 3) the file provided to IT to upload for payment. With the rollout of the new application for Sysco, the District is down to a .528% variance in product/price as of June 30, 2020. This variance continues into future months as there is not timely remediation of the variances noted from this reconciliation process. We recommend that the District review procedures in place at the school level to determine how to timely evaluate the variances so that they can be cleared in the same month.

Management's Response, June, 30, 2020

With the implementation of the three-way match application and procedures, the Department of Nutrition Services has been able to achieve a three-way match between the items received onsite, the invoices from the vendor, and the payment of the invoices to ensure that quantity and pricing issues are addressed with the vendor. The 0.528% of unaddressed variances are a result of data entry errors into OneSource made by onsite staff.

The Department of Nutrition Services has reviewed the school-level procedures and completed training with onsite staff to address these errors. The Department will continue to monitor and address these data entry errors in OneSource to ensure corrections are made in the same month or as soon as practical.

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Budget Reported in IFAS

As part of the review of the financial statements we verify budget amounts to supporting documentation. During that review, it was brought to our attention by the budget department that a couple of the figures being posted in IFAS for the revised budget were not accurate. This information was subsequently corrected in the financial statements. We recommend that the district review budget figures that were entered and posted to IFAS and modify any incorrect postings as they become known. This will assist in ensuring that accurate data is reflected when a budget report from IFAS is used throughout the year.

Management's Response, June, 30, 2020

The district agrees with this recommendation. Once each fiscal note is uploaded into IFAS by one staff member, it will then be reviewed by the creator of the fiscal note through an IFAS report to ensure the new totals are correct. This will be done for both expenditures and revenue adjustments.

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Contract Invoicing Support and Sponsorship Agreements

As part of the audit process a limited review of sponsorship agreements and invoices related to contracts that the District has with third parties occurred. The findings noted during these reviews are included below.

In regards to sponsorship agreements, it was noted that there were numerous District staff who had not fulfilled the terms of their signed agreements and the District failed to follow-up or monitor compliance with those agreements. Lack of fulfillment of the terms may lead to the District being owed money by the staff that failed to fulfill the terms. We recommend that the District put a process in place that ensures proper monitoring of these agreements as well as a process for District staff to invoice for the reimbursement of a staff who fails to comply with the requirements of the agreements.

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 rate that was far in excess of the agreed upon rates specified in the signed contract.
2. The process for reviewing and approving the supporting documentation for the hours worked that were billed to the District was not consistently applied from contracted individual to contracted individual. It was noted that for one individual the use of a copy of her supervisors' signature was used for timesheet hours recorded by the contracted individuals with no review by the supervisor whereas other individuals with the same supervisor had properly reviewed and approved support for the hours worked.
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. Contract with third party did not include details that stated what the appropriate support was that needed to be presented to the third party for their invoicing process.

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 review of contract content be done by procurement to assist in determining what the proper supporting documentation is that should be provided to the third party so that proper invoicing may occur.

Management's Response, June, 30, 2020

Sponsorship Agreements:

The District agrees that a formalized process should be in place to monitor the fulfillment of these sponsorship agreements. Development of such a process will begin immediately and will include a mechanism in which an employee who fails to meet the terms of the agreement can be invoiced for owed funds or arrangements for payroll deductions can be made. The District currently has a process in place whereby tuition reimbursement funds can be recouped when an employee fails to meet the conditions for receiving the funds. This process will be used as guidance in developing the sponsorship agreement process.

Contract Invoicing Support:

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.

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Actuarial Census File

During review of the actuarial census file used in the participant testing we noted, during deferral participation testing, termination dates per the census were not matching the date per client employee files (Teachers Plan) and the census file was not showing termination dates, but in fact the employee was terminated. The employees were properly grouped as deferred, but the termination date was not listed properly (Admin Plan). Employees categorized as classified are all showing two years of service on the active census data file (Admin Plan) and active participants had overstated service credits (Admin Plan). Management was informed of these differences and contacted the actuary. It is our understanding the actuary file provided to Baker Tilly may contain additional or different information than what management provides to the actuary (additional columns, information, etc.)

Recommendation

We recommend management obtain a copy of the actuarial census information used in the valuation report and review to ensure all information included is accurate and presented properly.

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.

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Benefit Payments

Retirement benefit calculations rely on information from outside entities, including but not limited to the Wisconsin Retirement System (WRS) and Employees Retirement System of the City of Milwaukee Average Monthly Earnings, Adjusted Option Factor, WRS factor and present value of age 60 benefit.

Recommendation

While we don't consider the aforementioned to be an internal control deficiency, we bring these items to your attention so procedures can be implemented, if not already present, on verifying the accuracy of this information within the supplemental pension calculations.

Management's Response, June, 30, 2019

The pension department does a reconciliation of the years of service and final average salary. The information we receive back from WRS and ERS is the consolidation of data that Milwaukee Public Schools sends every payroll to ERS for employees under the City and annually for employees under WRS.

Management's Response, June, 30, 2020

No changes to the response from June 30, 2019.

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 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 a 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 1 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

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Financial Reporting Risks

As a result of internal control walkthroughs, it was noted management is not aware of, nor participates in, any meetings that specifically address the issues of fraud.

Recommendation

We recommend the discussion of fraud be included in meetings that may currently already be held. It is also recommended 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.

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

Baker Tilly Virchow Krause's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Information Technology Best Practices

1. Baker Tilly noted that no formal review of access to PeopleSoft, IFAS, AiM, OneSource, and the network was performed.

Recommendation

Periodic access reviews should be performed, particularly over privileged users. Due to the increased risk associated with privileged accounts, a formal review process of these users should be performed at least annually. These reviews should cover access to IFAS, PeopleSoft, AiM, OneSource, and network accounts. User access reviews should be overseen by a centralized group or individual who provides system-generated lists to applicable business owners and tracks the reviews to completion.

Management's Response, June 30, 2017

MPS agrees with the recommendation that periodic access reviews should be performed. MPS will work to develop system-generated lists to applicable business owners and track reviews to completion.

Management's Response, June, 30, 2018

MPS is in the process of migrating to new financial and HRIS systems which will replace IFAS and PeopleSoft. As part of this process, system and account access is being reviewed and refined with new roles to be applied to the new system. Expected completion July 1, 2019. MPS network accounts are tied directly to employment and are automatically disabled upon employee termination. VPN access for third-party entities (non-MPS employees) is reviewed annually.

Management's Response, June, 30, 2019

MPS has a team put together to handle these reviews and are meeting in early 2020 to go over the procedure for this year's review, establish deadlines for completion and put together action items for each team member to gather all the access information for these systems. Once the data has been gathered, we will meet again to put the data into one report that the team will then go over and develop a list of action items to secure these environments based on this review. Currently the plan is to have this review completed and solutions implemented by the end of the calendar year. This team includes technology staff who have the ability and access to gather this information for the review.

Management's Response, June, 30, 2020

MPS agrees with the recommendation that periodic access reviews should be performed, particularly for over privileged users. The district has acquired software through Tools4Ever which will be used to develop automated account access based on user roles or job descriptions. Once implemented, MPS will develop a process to regularly review access to critical systems.

Baker Tilly's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Information Technology Best Practices (continued)

2. MPS does not actively monitor for external and/or internal access violations on the network and financial. Security logs are available for post incident review, but they are not proactively monitored.

Recommendation

With the heightened threat of malicious activity which increases the risk of the unauthorized disclosure of sensitive, personally identifiable information as well as the risk of unauthorized access that could lead to inaccurate financial reporting, MPS should consider increasing their IT security with regards to proactively monitoring for both internal and external access violations to the network and financial applications.

Management's Response, June 30, 2017

MPS agrees with the recommendation of increasing IT security and is in the process of onboarding a new Cybersecurity Systems Administrator. Functions of this role will include proactively monitoring and developing audit controls for internal and external access violations to the network and financial applications.

Management's Response, June, 30, 2018

Since the last audit MPS has filled the position of Cybersecurity Systems Administrator. This position oversees all functions of the district's firewall and is responsible for monitoring all inbound and outbound internet traffic. Development of a comprehensive security plan is ongoing. MPS is in the process of migrating to new financial and HRIS systems which will replace IFAS and PeopleSoft. As part of this process, system and account access is being reviewed and refined with new roles to be applied to the new system. Expected completion July 1, 2019.

Management's Response, June, 30, 2019

The same review team that is mentioned in the Management Response for item #1 of "Other Comments and Informational Points" section of this document will also be reviewing access violations. The team will be taking actions to secure our environment based the results of the review.

Management's Response, June, 30, 2020

MPS agrees with the recommendation that MPS should consider increasing their IT security with regards to proactively monitoring for both internal and external access violations to the network and financial applications. The district is in the process of filling the position of Cybersecurity Systems Administrator. This position will include a primary task of selecting a robust security information and event management system.

Baker Tilly's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

Information Technology Best Practices (continued)

3. A. The process for adding new users does not follow a formal policy and does not grant privileges based on roles or job description, which can lead to users having more privileged access than is necessary for their role.
- B. The process for disabling user accounts does not follow a formal policy and only disables accounts from the Active Directory. The application accounts remain active for longer than the best practice time period.

Recommendation

- A. The access privileges should be granted based on user roles. The IT security team should review these roles and consider implementing a policy to ensure that the privileges are appropriately limited.
- B. Accounts for all applications should be disabled within 24-72 hours of an employee's termination. Users with elevated privilege should be deactivated immediately or no later than the same day as termination. MPS should also consider implementing a policy to outline the user deletion process.

Management's Response, June, 30, 2020

MPS agrees with the recommendation that access privileges should be granted based on user roles and that the IT security team should review these roles and consider implementing a policy to ensure that the privileges are appropriately limited. These controls are already in place for many systems and critical systems require a manual review before providing account access. The district has acquired software through Tools4Ever which will be used to develop automated account access based on user roles or job description.

MPS agrees with the recommendation that accounts for all applications should be disabled within 24-72 hours of an employee's termination and that users with elevated privilege should be deactivated immediately or no later than the same day as termination. Account access to almost all district systems is controlled through an Active Directory record, including financial and HR systems. Once an employee's active employment has been terminated in the HR system, our systems will automatically disable the account within 4 hours or by the next day. In an emergency, systems access to any system can be disabled immediately by manual intervention. MPS agrees with the recommendation of implementing a policy to outline the user deletion process.

Baker Tilly's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

4. No formal policy is in place for escalating urgent/emergency updates to critical systems.

Recommendation

MPS should consider implementing a policy to outline the process of determining relevant updates to critical systems and if necessary the escalation of urgent/emergency updates.

Management's Response, June, 30, 2020

MPS agrees with the recommendation of implementing a policy to outline the process of determining relevant updates to critical systems and if necessary, the escalation of urgent/emergency updates. MPS does have these controls in place for many of its systems and will develop a standardized procedure that can be followed for all critical systems.

Baker Tilly's Updates, June 30, 2020

This comment will be reevaluated during the 2021 audit.

The following Other Comments and Recommendations have been resolved in the current year:

- Cash Reconciliations
- Payroll Review

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 the 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 2020. 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 liability (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 3 rd 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
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

Net 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

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.

Difficulties encountered during the audit

We encountered no significant difficulties in dealing with management and completing our audit.

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 pleased to report that no such disagreements arose during the course of our audit.

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 Appendix includes copies of other written communication, including a copy of the management representation letter.

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. There were no misstatements identified.

Compliance with laws and regulations

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

We will issue a separate document which contains the results of our audit procedures to comply with the Uniform Guidance and *State Single Audit Guidelines*.

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 the financial statements are issued or available to be issued, 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 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.

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
- Preparation of auditee section of the data collection form
- Accounting assistance related to pension and other post-employment benefits

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

An aerial photograph of a winding asphalt road with white dashed lane markings, curving through a dense green forest. A rocky stream flows through a clearing in the upper right corner of the image.

Accounting changes relevant to the District

Accounting changes relevant to the District

Future accounting standards updates

GASB Statement Number	Description	Potentially Impacts you	Effective Date
84	Fiduciary Activities	✓	12/31/20*
87	Leases	✓	12/31/22*
88	Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	✓	12/31/20*
89	Accounting for Interest Incurred before the End of a Construction Period	✓	12/31/21*
90	Majority Equity Interests and amendment of GASB Statements No. 14 and No. 61	✓	12/31/20*
91	Conduit Debt	✓	12/31/22*
92	Omnibus 2020	✓	12/31/22*
93	Replacement of Interfund Bank Offered Rates	✓	12/31/22*
94	Public-Private and Public-Public Partnerships and Availability Payment Arrangements	✓	12/31/23

*The statements listed above through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No. 95, *Postponement of Effective Dates of Certain Authoritative Guidance*, with the exception of Statement No. 87 which was postponed by one and a half years. The effective date reflected above is the required revised implementation date.

Further information on upcoming [GASB pronouncements](#)

Preparing for the new lease standard

GASB's new single model for lease accounting will be effective for the upcoming year. This standard will require governments to identify and evaluate contracts that convey control of the right to use another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. Contracts meeting the criteria for control, term and other items within the standard will result in recognizing a right to use asset and lease liability or a receivable and deferred inflow of resources.

We recommend the District review this standard and start planning now as to how this will affect your financial reporting. We recommend that you begin by completing an inventory of all contracts that might meet the definition of a lease. The contract listing should include key terms of the contracts such as:

- Description of contract
- Underlying asset
- Contract term
- Options for extensions and terminations
- Service components, if any
- Dollar amount of lease

In addition, the District should begin to establish a lease policy to address the treatment of common lease types, including a dollar threshold for each lease. We are available to discuss this further and help you develop an action plan.

Learn more about [GASB 87](#).

A photograph of the Aurora Borealis (Northern Lights) in shades of green and teal, dancing across a dark, starry night sky. The lights are reflected in a calm body of water in the foreground, with dark mountain ranges visible on the horizon.

Trending challenges for Districts

Trending challenges for Districts

Management and the governing body of the District must keep the future in mind as they evaluate strategies to achieve future growth. Keeping a balance between risk and sustainability is key, and organizations need to think beyond their immediate needs to their long term goals. Economic uncertainty, coupled with key risk areas and fast paced technology change, make strategic planning complex. Begin the discussion with your management team to find your path to your future.

Cybersecurity

Operational reporting on cybersecurity effectiveness

As boards engage management in cybersecurity risk discussions, directors should expect management to produce reports on the effectiveness of the organization's cybersecurity-risk management program. Management can (and should) collect and analyze relevant performance measures and metrics to determine if cybersecurity safeguards and controls are operating as intended, and whether any corrective action should be taken to strengthen management's risk-mitigation approaches. While not an exhaustive list, some key processes on which management should report include these:

- Incident management
- Risk management and governance
- Independent assurance on the cybersecurity program

[Learn more](#) about cybersecurity risk management.



[WATCH: On demand webinar about board governance over cybersecurity.](#)

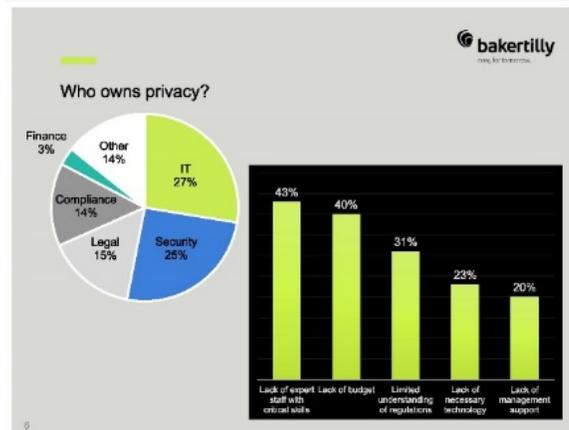
Data privacy

Elevating privacy risks to the forefront of board agendas

Organizations around the world are still scrambling to comply with the General Data Protection Regulation in the European Union, which went into effect in May 2018. While the data privacy regulatory environment changes rapidly, organizations can take proactive steps to ensure that they stay informed of the existing regulations and of those developing on the near horizon.

Adequate oversight remains a key part of staying on top of data privacy developments. Some regulations specify oversight requirements, and can depend on the type of the organization, the quantity and type of personal data processed, and the locations where operations take place. In many cases, a data protection officer (DPO) must lead the effort. Since the DPO is responsible for overseeing practices related to data protection strategy and implementation, having one in place early on will help ensure that the privacy program is comprehensive and consistent.

Learn more about [data privacy risk management](#).



[WATCH: On demand webinar about a risk-based approach to oversight, compliance and management of privacy](#)

COVID-19 Risks and ongoing response

Staying nimble and resilient during unprecedented disruption

COVID-19 has challenged all organizations and the effects continue to unfold. It is critical that management and governing bodies stay nimble to respond to direct and indirect effects of this disruption on operations, cash flow, and people. Some best practices to consider include:

- Establish mechanisms to track COVID-19 related expenses, lost revenues or delayed revenues
- Monitor cash flow projections and seek short term liquidity help
- Create a policy and forms for compliance with Family First Coronavirus Response Act
- Compare anticipated results to bond covenants and track any continuing disclosure items
- Re-evaluate TIF projections with revised development scenarios
- Develop a strategy for leading your community through the crisis



Learn about public sector [Coronavirus resources](#), including the latest news on business continuity and cash flow management, Federal stimulus and tax developments, and more.

Appendix A: Client service team



Client service team



Wendi M. Unger, CPA

Partner

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United States

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wendi.unger@bakertilly.com



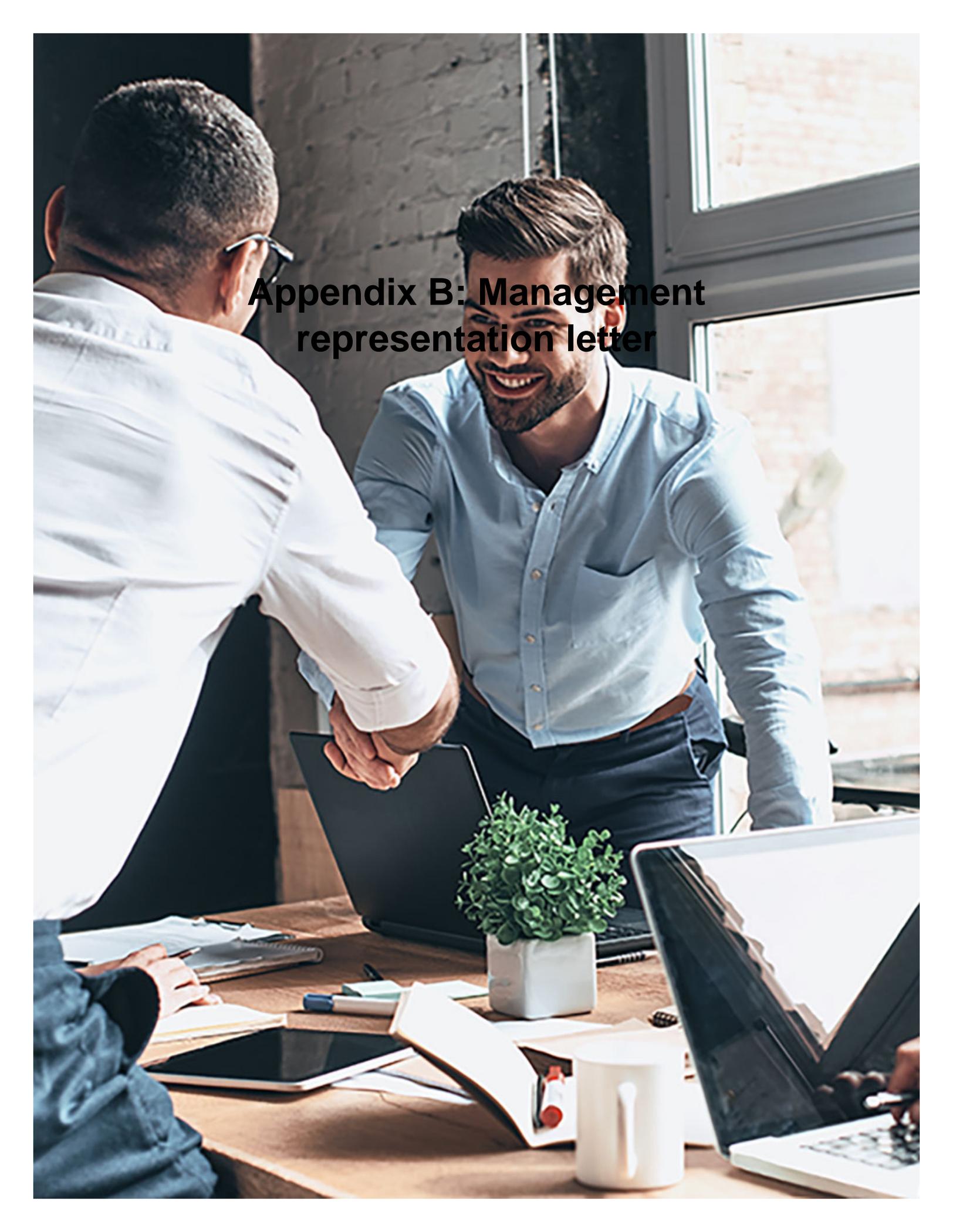
Michelle Walter, CPA

Senior Manager

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A photograph of two men in an office environment. The man on the right, with a beard and wearing a light blue button-down shirt, is smiling broadly and shaking hands with the man on the left. The man on the left is seen from the back, wearing a white shirt and glasses. They are standing at a wooden desk cluttered with various office items: a laptop, a tablet, a white mug, a small potted plant, and some papers. A window in the background shows a view of a brick building. The overall atmosphere is professional and celebratory.

**Appendix B: Management
representation letter**



**MILWAUKEE
PUBLIC SCHOOLS**

Office of the Superintendent
5225 W. Vliet St., P.O. Box 2181
Milwaukee, WI 53201-2181
(414) 475-8001 • mps.milwaukee.k12.wi.us

December 21, 2020

Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)
777 E Wisconsin Ave, 32nd Floor
Milwaukee, WI 53202

Dear Baker Tilly US, LLP:

We are providing this letter in connection with your audit of the financial statements of the Milwaukee Public Schools (the "District") as of June 30, 2020 and for the year then ended for the purpose of expressing an opinion 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. 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.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information 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.
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, 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 balance sheet 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. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
10. Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.

Information Provided

11. 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 Board of Education or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. 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.
14. 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.
15. 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.
16. There are no known related parties or related party relationships and transactions of which we are aware.

Other

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
18. 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.
19. We have a process to track the status of audit findings and recommendations.
20. 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.
21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
22. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
23. 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.
24. 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.

25. In regards to the nonattest services performed by you listed below, we 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 section of the data collection form
- c. Accounting assistance related to pension and other post employment benefits

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

26. The 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.

27. The 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.

28. The financial statements properly classify all funds and activities.

29. 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.

30. 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.

31. We believe that we have properly identified all derivative instruments and any embedded derivative instruments that require bifurcation. The District's hedging activities, if any, are in accordance with its documented and approved hedging and risk management policies. The District 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.

32. Provisions for uncollectible receivables, if any, have been properly identified and recorded.

33. 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.

34. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.

35. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.

36. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).

37. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.

38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
39. Tax-exempt bonds issued have retained their tax-exempt status.
40. We have appropriately disclosed the 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.
41. 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.
42. 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.
43. 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.
44. 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.
45. 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.
46. 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 presenting the SEFSA 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 (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Compliance Supplement and the *State Single Audit Guidelines*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of 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.

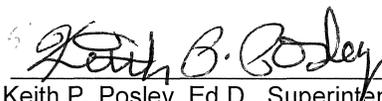
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from 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 monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance and the *State Single Audit Guidelines*.
- u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- v. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- w. We have charged costs to federal and state awards in accordance with applicable cost principles.
- x. 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.
- y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.

z. We are responsible for preparing and implementing a corrective action plan for each audit finding.

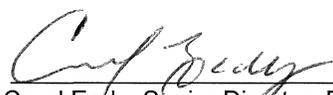
aa. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

Sincerely,

Milwaukee Public Schools

Signed: 
Keith P. Posley, Ed.D., Superintendent

Signed: 
Martha Kreitzman, Chief Financial Officer

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

Signed: 
Renee Dudley, Comptroller

A close-up photograph of a person's hands and arms at a wooden table. The person is wearing a light blue long-sleeved shirt and a black watch with a white face and a brown leather strap. They are holding a black pen over an open document. In the background, another person's hands are visible, gesturing during a conversation. The scene is set in a meeting or office environment.

**Appendix C: Two-way communication
regarding your audit**

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.