

MILWAUKEE PUBLIC SCHOOLS

Milwaukee, Wisconsin

REPORT ON INTERNAL CONTROL

**(Including Memorandum on Accounting Procedures, Internal
Controls, and Other Matters)**

As of and for the Year Ended June 30, 2011

MILWAUKEE PUBLIC SCHOOLS

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To the Board of Directors
of the Milwaukee Public Schools
Milwaukee, Wisconsin

In planning and performing our audit of the financial statements of the Milwaukee Public Schools ("District") as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 consider the following deficiencies in the District's internal control to be a material weakness.

> Contract Policy Compliance and Related Controls Evaluation

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

This communication is intended solely for the information and use of the Board of Directors, management, and others within the organization and is not intended to be, and should not be, used by anyone other than the specified parties.

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
December 14, 2011

MATERIAL WEAKNESS – DISTRICT WIDE

Contract Policy Compliance and Related Controls Evaluation

During the FY11 audit process a selection of contracts and purchases were tested for compliance with the District's Administrative Policy 3.09 and the significant modification made to it by the school board on November 18, 2010, and evaluated as to whether or not the controls were adequate and functioning appropriately. It is important to note that the modification made on November 18, 2010, was effective immediately, without any phase – in period. Transactions tested that may have been in compliance with District's Administrative Policy 3.09 prior to the November 18, 2010 board item may have become non-compliant subsequent to the November 18, 2010, modifications.

Internal control is a process – affected by an entity's governing body, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

The testing resulted in the following control and compliance issues:

1. Due to the decentralized structure of the district's procurement process, there were cases where pricing and terms were not negotiated or bids were not brought current.
2. Contract change orders over \$50,000 are required to go to the Board for approval.
3. Contract pricing is not always readily available upon request.
4. Contracts are at times presented to the Board for approval when MPS Contract Compliance Services has yet to advise whether or not the vendor failed to meet HUB, COIN or Student Engagement requirements of the RFP.
5. Contractors are sent a letter directing them to send their required Insurance Certifications to an MPS insurance contractor for review. The Facilities & Maintenance Division does not receive affirmative confirmation from the MPS insurance contractor to ensure that documents comply with MPS requirements prior to the start of construction. Accordingly, MPS would not know if a vendor chooses to not comply and not submit insurance documents for review.
6. Under Board action on September 24, 2009, a monthly report of all contracts under \$25,000 is required to be sent to the Board. Our review found that contracts and purchase orders under \$25,000 originating in the district's AiM system (cost accounting and building management system) were not being included in the monthly reports to the Board.
7. Under Board Action on November 18, 2010 all contracts that bind the district to an amount exceeding \$50,000 or with a cumulative total exceeding \$50,000 and any given budget year shall be brought to the Board for approval and must be signed by the Board. Our review showed instances where this was not occurring.

MATERIAL WEAKNESS – DISTRICT WIDE

Contract Policy Compliance and Related Controls Evaluation (continued)

District management recognized the need for an evaluation of the policy and its modification on November 18, 2010, and the importance for improving the internal controls over the contract process. Management has taken steps to centralize the contracting process. They are also working to revise and enhance Administrative Policy 3.09 so that there is clear communication of what the policy is and also to assist in improving the internal controls over the contracting process. There is also a Six Sigma quality process that is being applied to the contracting process to identify the strengths and weaknesses and areas for improvement.

Recommendation

We recommend that the District continue as noted above to re-evaluate the existing policy and related controls and modify as appropriate to address the findings listed.

Management's Response, June, 30, 2011

At the direction of the Board, the district began an initiative in late FY11 to review, analyze and improve the district's contracting and purchasing process. This contracting and purchasing initiative will result in actions and processes that address and affect transactions of the type cited in the findings of this internal control evaluation of contracts.

Steps currently underway include:

- recentralization of contracting;
- improvements to Administrative Policy 3.09 language for clarification and enhancement of internal control;
- implementation of a Six Sigma quality process that analyzes MPS contracting and identifies processes to be changed or implemented in support of contracting efficiency, effectiveness and internal control.

In addition to the above, software in the form of a contract module and a bid management module have been purchased and will be added to the district's IFAS accounting system to support and enhance the contracting and bid management processes. Enhanced reporting tools within IFAS have been put in place to highlight contracting performance and give light to the progress of this initiative. Reporting from the district's AiM system will be included so that the contracts and purchase orders originated within the Facilities division are included in the reporting to the Board.

District management is committed to the administration of and compliance with Board policies. Completion of the steps cited above is expected to result in strong internal control for contracting, with noncompliance being infrequent and resulting from unusual or extenuating circumstances.

CURRENT YEAR ISSUES – DISTRICT WIDE

Review of Disposed of Capital Assets

As part of the audit process we select a sample of disposals and test for the appropriate removal of each item from the capital asset management system. It was noted that several of the items selected for testing were not removed as expected.

Recommendation

We recommend that management evaluate the existing process for removal of disposed of assets and implement additional controls as appropriate to ensure that this type of transaction is properly handled in the future.

Management's Response, June, 30, 2011

At the end of each school year, all Principals must sign and return to the Finance Department a check list that includes a section indicating that all qualifying deletions of Fixed Assets have been entered into the capital asset management system. Also, the District's Fixed Asset policy is addressed in the School Accounting Manual, and in the Financial Guide and Calendar which is sent to all schools at the beginning of each school year.

The Finance Department will continue to communicate to schools the importance of following the procedures that are in place for properly disposing of Fixed Assets in the capital asset management system.

Bank Reconciliations – Student Activity Funds

During the testing of the year-end bank reconciliations for the several student activity funds it was noted that the ending balances recorded on the District's yearend statements are based at times on May balances and not on June balances as would be appropriate. Due to the fact that the schools let out at the end of May or early June, the staff are not always present until the District's fiscal yearend and therefore June bank reconciliations may not be prepared until much later in the summer or may even be combined with July and/or August. The result of this situation is that the exact dollar amounts of the student activity fund cash balances at June 30 are not available.

Recommendation

We recommend that management implement a yearend procedure and time line to ensure that all bank reconciliations, that are required to be done for student activity accounts, be prepared as of June 30 and that they be provided to the appropriate District personnel for proper inclusion in the District's yearend financial statements.

Management's Response, June, 30, 2011

Due to the absence of many Administrators and Support Staff at Schools between mid-June and mid-August, the Finance Department previously allowed schools to combine their June 30 and July 31 bank reconciliations for student activity funds when those personnel returned for the beginning of the new school year.

Going forward, the Finance Department will communicate to all schools a year-end procedure and timeline to ensure that all bank reconciliations are prepared as of June 30 and are provided to the appropriate District personnel for proper inclusion in the District's year-end financial statements.

CURRENT YEAR ISSUES – DISTRICT WIDE

Information Technology Issues

1. MPS does not monitor for external and/or internal access violations on the network and financial application except for locking user accounts after 5 invalid login attempts. Additionally, a formal process to document, track, escalate, and respond to these types of security violations is not in place.

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, 2011

Milwaukee Public Schools has the capability to monitor intrusion detection and does on some systems using OSSEC – Open Source Security software (see attached). OSSEC is an Open Source Host-based Intrusion Detection System. The OSSEC system gathers information from our SYSLOG server (fs51833) and parses the data for reporting purposes. OSSEC performs log analysis, file integrity checking, policy monitoring, rootkit detection, real-time alerting and active response. We do not currently have OSSEC monitoring our Financial Systems such as PeopleSoft and IFAS but we do have it gathering syslog files from the District main Web server.

Our plan is to expand our implementation of OSSEC to gather syslog event information from critical servers that will report login access violations, firewall logs reporting excessive pings or access attempts (denial of service) to a single or multiple IP address/es,, etc. Currently the OSSEC system emails the MPS Host Intrusion Detection System listserv to alert key personnel of possible security threats.

MPS will immediately begin investigating and implementing OSSEC monitoring to proactively monitor the following systems:

- IFAS
- PeopleSoft
- PeopleSoft Self Service
- OID (LDAP –Oracle Internet Directory Service)
- Microsoft Directory Services (AD)
- Cisco ASA 5540 Firewalls
- Cisco ASA 5550 VPN appliances

CURRENT YEAR ISSUES – DISTRICT WIDE

Information Technology Issues (continued)

As previously stated MPS does have the 5 login attempt lockout setting for LDAP using SpecOps security software.

2. A formal review of user access including PeopleSoft, IFAS and iPay took place for the first time in the Spring of 2010 for both Schools and Central Services. The plan was to perform the Central Services review each summer following the initial review (but not the summer of 2010) and the School user access each fall following the initial review (but not the fall of 2010).

Ms. Cutler noted that at the time of the Risk Assessment in August of 2011, user access to these financial applications had not been reviewed since April of 2010, nearly 17 months prior. Additionally, Ms. Cutler noted the following issues within the process:

- A review of the reviewer's access was not completed where applicable by an appropriate reviewer.
- There was no formal tracking mechanism to track whether a response from each responsible party (school) was provided indicating the access review was fully complete.

Recommendation:

A framework for the user access review process was put in place at MPS where system-generated lists of individuals with access to PeopleSoft, IFAS and iPay were generated and sent to Department Heads or Principals with instructions on reviewing and documenting the appropriateness of access for their assigned users. However, several areas within the process can be improved:

1. The user access review schedule should ensure that, at a minimum, access to PeopleSoft, IFAS and iPAY is reviewed for appropriateness at least annually.
2. There are two parts to the system access review - one for Corporate Services users and one for School users. Although the Corporate Services user access review is facilitated by IT, the facilitation of the school user access review would best be placed within the Office of the Chief Financial Officer, who will better be able to attest to the appropriateness of the access rights of school users with access to the financial applications.
3. The District should consider updating the process to include tracking responses from the reviewers so that a complete review can be verified.
4. In cases where reviewers have access to applications, review by the system owner for the reviewer's access should be obtained and documented.

Management's Response, June, 30, 2011

Management agrees with the process. However, it is recommended that the entire annual process of certifying the security access for the financial systems be coordinated by the Office of the Chief Financial Officer, performing the certification review with members of the departments of Technology, Human Resources and others, as necessary.

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Information Technology Issues

Below are certain items noted in our review of the District's management information technology system:

1. The MPS data centers are state of the art. The multi-site locations are virtually mirrors of each other. In addition, the redundant systems for storage, backup, environment and power reflect a well thought out IT plan and focus on protection of their data resources. MPS should be commended for their work on the data centers.

Recommendation

Continue to ensure that changes to the environment are monitored and follow the change control process to limit vulnerabilities.

Management's Response, June 30, 2010

Management concurs with the recommendation. The Technology Divisions will employ best practices during upgrades to the financial systems. This includes but is not limited to resetting all port access.

Management's Update, June, 30, 2011

Management concurs with the recommendation. The Technology Divisions will employ best practices during upgrades to the financial systems. This includes but is not limited to resetting all port access.

2. Many areas of MPS use custom reports. In addition, MPS uses a number of reporting tools that allow for report development and ad hoc reporting. These reports are more easily changed and it is not easy to determine that the proper selection criteria were used when generating the report.

Recommendation

The District should identify the key reports and queries that are being used as part of the financial control environment. These reports and queries should be managed with the same controls and security as the PeopleSoft system.

Management's Response, June 30, 2010

Management concurs with the recommendation. An inventory will be conducted of all mission critical control reports and their execution will be limited to only staff with appropriate security.

Management's Update, June, 30, 2011

This issue has been satisfactorily addressed during FY 2011.

Baker Tilly Virchow Krause's Updates, June 30, 2011

This issue has been satisfactorily addressed during FY 2011.

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Information Technology Issues (continued)

3. MPS is poised for a major upgrade to their PeopleSoft system in 2011. Since the new version of the PeopleSoft software is so different, there is a possibility that MPS may go through a selection process and evaluate other vendors.

Recommendation

Assuming MPS will upgrade or select and implement a new system, our review for 2011 will encompass the process and controls used in the conversion and/or implementation of the system. Areas of focus for the implementation are:

- *Clearly documenting requirements and gaining buy-in from both the users and IT.*
- *Documentation of controls that are included as part of the requirements phase.*
- *Data Conversion plans and testing.*
- *Interface plans and testing.*
- *User Acceptance testing.*
- *Post Implementation review.*

Management's Response, June 30, 2010

Assuming that MPS issues a request for proposals or bids for the acquisition of a new payroll system, it will follow the best practice life cycle processes. All major phases will be used with clearly defined deliverables with user acceptance. The actual benefits of the new system will be ascertained during the post audit phase.

Management's Response, June 30, 2011

Management agrees with the recommendation.

Baker Tilly Virchow Krause's Updates, June 30, 2011

MPS originally intended to implement PeopleSoft's time and labor module in FY 2011. However, after implementing Aesop in October 2011 (which has a Time and Labor component), MPS postponed the PeopleSoft upgrade until further comparison and review could be performed between PeopleSoft and Aesop. Time and labor is still handled within iPAY, which is an MPS custom application.

In addition to the Time and Labor component upgrade, MPS is planning to undergo several other notable updates including:

- IFAS version 7.9 upgrade plus the addition of the Grants and Contracts modules (September 2011)
- eSIS replacement (Fall 2012)
- Aesop substitute teacher program (October 2011)

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Information Technology Issues (continued)

Recommendation

MPS should continue to evaluate vendors via the software acquisition program, which requires RFPs, defined selection criteria, and board approval. All changes should follow the standard change control process, with emphasis on detailed planning and testing. Areas of software installation/implementation focus include, but not limited to:

- *Clearly documenting requirements and gaining buy-in from both the users and IT*
- *Documentation of controls that are included as part of the requirements phase*
- *Data conversion plans and testing*
- *Interface plans and testing*
- *User acceptance testing*
- *Post implementation review*

1. Active Directory / PeopleSoft password policy does not force new passwords or limit reuse of passwords.

Recommendation

Best Practice states passwords should be changed every 90 days, require strong passwords, and passwords should be remembered so user's can't reuse recent passwords. The District has recently awarded an request for proposals to address the Active Directory password controls through Specops software. Through the implementation of this process, the District should be able to address the risk related to insufficient password controls.

Management's Response, June 30, 2009

The division is waiting for the approval to use stimulus funds to purchase software that will address these findings. Upon approval, this software will be implemented immediately.

Management's Update, June, 30, 2010

Funding sources have been identified for 2010-11 fiscal year. Upon receipt of funding, software to address this issue will be purchased and implemented.

Management's Update, June, 30, 2011

This issue has been satisfactorily addressed during FY 2011.

Baker Tilly Virchow Krause's Updates, June 30, 2011

This issue has been satisfactorily addressed during FY 2011.

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Information Technology Issues (continued)

1. IFAS Security:

- There is no regularly scheduled review of users to determine that system access levels are appropriate. Within three months of the start of the school year, management should review all IFAS users to determine appropriate levels of access have been granted.
- Sunguard/Bi-Tech has been granted full access to the IFAS system in order to perform application maintenance services remotely. This access is available 24x7 and is not monitored to ensure appropriateness of activity. The District should log all system activity executed by Sunguard/Bi-Tech and regularly review their activity to ensure program or data have not been compromised.

2. PeopleSoft Security

- Inquiries to determine users with PeopleSoft access resulted in unusually high numbers of users with the ability to create employees and access payroll to run checks. Users with the ability to modify pay rates for employees could not be determined. The difficulty in determining powerful payroll users is indicative of MPS not having strong internal controls in this area. Management should develop a process to regularly review users that can a) add employees, b) modify compensation rates, and c) make payroll payment. As part of the regular payroll user access review, management should identify conflicts between 'a' to 'c' and 'b' to 'c'.

3. IT Operations:

- Service level agreements for IT service commitments and application availability to the business functions have not been defined.

Recommendation

We recommend that management review these issues and develop action steps to resolve these concerns.

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Information Technology Issues (continued)

Management's Response, June 30, 2005

1. IFAS security

IFAS security is role-based. Employee security based upon their approved need to have access to IFAS. The human resources system provides the names of employees to be removed from IFAS security because they retire, quit, are terminated or reassigned. The notification of employees that have IFAS access and are removed from their responsibility on an emergency basis is communicated to the Security Officer by administration on a real time basis. Management will conduct a review by July, 2006 of the security levels of employees.

The current contract with Sungard/BI-Tech follows the standard RASP model, in which the vendor guarantees safeguarding of MPS data. However, the district is assuming full support of the IFAS system and the current access will be revoked within the next 60 days.

2. PeopleSoft Security

While the hiring analysts within the human resources department can enter hiring data, only two (2) Payroll employees can run payroll. The modification of pay rates is the responsibility of the compensation analyst. Management is always reviewing the control processes in regards to payroll and believes that strong internal controls exist.

3. IT Operations

MPS is a site managed school district. Functional user departments are the owners of ERP applications. The owner of each application determines the schedule of their system availability. The district standard for on-line availability is 24/7. Operational availability is five nines (999.99). As such, management believes that service level agreements are not needed.

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Information Technology Issues (continued)

Management's Update, June 30, 2006

1. IFAS security

Management did not conduct a security review of IFAS user permissions. Such a review can not be carried out by district level staff. Reports would need to be sent to schools and departments for review by principals and department heads. Management does not want to burden principals with a security review task.

The Sungard/Bi-Tech RASP support was extended through September 30, 2006. Vendor support staff accounts are disabled. The annual support agreement requires that MPS provide access for vendor support staff to the production environment. Specific details of the connection protocol are under discussion.

Status as of 10/25/06: MPS and Bi-Tech are meeting to define the protocols that will allow Bi-Tech to connect to our environments in a fashion similar to our other vendors, i.e., only enabling a live connection for specific support requests, disabling a connection upon support completion, cycling of passwords, etc. Bi-Tech expressed that they have similar arrangements with other clients and do not anticipate a problem adopting this kind of model.

2. PeopleSoft Security

See page 2.

3. IT Operations

Management's goal for network environment availability remains 24x7. The redundancies designed and built into the infrastructure support this goal. Any planned outages are scheduled for off peak times and communicated to end users in advance.

Management's Update, June 30, 2007

1. IFAS Security:

MPS is able to generate a report of all IFAS users and will provide this to all central administrators at the start of each fiscal year and to school principals in September of each year.

Sungard/Bi-Tech has advised that IFAS version 7.9 to be released later in 2008 will provide greater controls for password setting, expiration, and re-use.

MPS no longer has a Remote Service Provider (RSP) agreement with Sungard/Bi-Tech. As such, the vendor has only a VPN access to the IFAS server for level II support. The VPN connection is activated as necessary by MPS technical services staff.

PeopleSoft Security:

As noted in comment 2 above, internal PeopleSoft reports have now been developed that will allow management to perform routine access reviews.

IT Operations:

MPS is a site-managed school district. All ERP software is purchased by the end user who controls its availability except for unplanned hardware outages. Currently operational availability is five nines (99.999%). As such, management believes a hard copy agreement is not necessary.

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Information Technology Issues (continued)

Management's Update, June 30, 2008

IFAS and PeopleSoft security issues have been addressed. The PeopleSoft update has been completed. Also, reports have been developed showing the names of all individuals with PeopleSoft access, their role assignments, and whether their role allows the ability to modify records, or view only.

This report will be run semi-annually and reviewed by the database administrator to verify any individual assigned to a role that allows the user to modify records is still performing the assigned role.

In addition, effective 06/27/2008 IFAS system access conformed to the MPS Security Baseline Standards that govern Login Account/Password Controls. Specific policies are as follows.

- Expire passwords after 90 days.
- Do not allow reuse of the three most recent passwords.
- Suspend an account after 5 consecutive incorrect password entries.
- Suspend an account after 120 consecutive days of disuse.

IFAS was configured to enforce the following.

- A minimum password length of at least six characters.
- A password expiration of 90 days.
- The user must include at least one number in any future passwords they create.
- A password may not be reused for 270 days.
- 5 login attempts allowed since the last successful login attempt.

Management's Update, June 30, 2009

The District has taken steps to formalize their approach to reviewing appropriate user access in PeopleSoft and IFAS. By control design, PeopleSoft central functions are to be reviewed each spring by department managers. However, a formal review of user access for central PeopleSoft functions did not occur in 2009 due to competing priorities (the last review was in August 2008).

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Information Technology Issues (continued)

Management's Update, June 30, 2010

IFAS Security – IFAS security management has been enhanced by annual review of all staff with access to the application. Annually, in October, all school leaders and department heads will receive a list of all employees for their location that have access to IFAS. (In FY10 the lists were sent in April). They must re-authorize employees continued need for access. If the list contains the name of an employee no longer at their location, they must cross-out the name, sign and date the list, and return it to the security group within the Division of Technology. The security group will remove the names of employees crossed-off, and investigate appropriately. The signed reports will be filed and retained until the audit for that fiscal year has been completed and accepted by the Board of School Directors.

Payroll Security (PeopleSoft and IPAY) – Payroll security management has been enhanced by annual review of all staff with access to the application. Annually, in October, all school leaders and department heads will receive a list of all employees for their location that have access to IFAS. (In FY10 the lists were sent in April). They must re-authorize employees continued need for access. If the list contains the name of an employee no longer at their location, they must cross-out the name, sign and date the list, and return it to the security group within the Division of Technology. The security group will remove the names of employees crossed-off, and investigate appropriately. The signed reports will be filed and retained until the audit for that fiscal year has been completed and accepted by the Board of School Directors.

Management's Update June 30, 2011

This issue has been satisfactorily addressed in FY11.

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Internal Control Issues

As a result of reviewing and testing the District's internal control system we found certain control issues that we believe should be addressed by management to strengthen the system of controls over the cash receipts, cash disbursements, payroll, and cash reconciliation functions. We have presented below our findings and recommendations.

1. **Approval of Journal Entries:** In 2006, the District implemented a journal entry approval process. However, during our audit, we noted a number of journal entries that did not have the required approval documented on the journal entry form.
2. **Student Activity Funds:** In our review of the Student Activity funds, we noted a number of receipts and disbursement that did not have proper approval or adequate supporting documentation. We also noted a Student Activity Account that has not reconciled for several months.

Recommendation

We recommend that management review the activities cited above and develop action plans to resolve the control risks and improve the District's internal control over these activities.

Management's Response, June 30, 2006

1. Management will remind internal organizations of the importance of obtaining and retaining client signatures authorizing expenditures to client accounts.
2. Management routinely reminds school secretaries of the importance of obtaining signatures authorizing receipts and disbursements, as well as the importance of reconciling the student activity account in a timely manner. Management will continue to emphasize these activities at regularly scheduled secretarial training sessions.

Management's Update, June 30, 2007

Management has ensured all training classes for secretaries and principals include an emphasis on documentation, authorization, and record retention. Management also now calls school principals when student activity accounts are not reconciled in a timely manner.

Management's Update, June 30, 2008

In FY08 management continued to emphasize documentation, authorization, and record retention in all secretary and principal training classes. Management also instituted a policy to follow-up with schools that fall more than 60 days behind in filing accounting reports and bank reconciliations, and to contact schools immediately when unusual balances are observed in any student activity accounts.

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Internal Control Issues (continued)

Management's Update, June 30, 2009

Management continues to stress the importance of securing the proper approval for expenditures through multiple training sessions with secretaries, bookkeepers, and principals. Training sessions include beginning and end-of-year training for secretaries and bookkeepers, and twice-each-year Fundamental of Finance training for new principals. In addition, the School Accounting Manual and Purchasing Made Easy Manual include multiple references to the need for principal approval. Also, the school-based Functional Plan includes a performance measure that will assess school compliance with policies, procedures, and best practices.

Management's Update, June 30, 2010

During FY10 management developed a written policy addressing the approval of journal entries. This policy describes 1) the types of journal entries, 2) the review thresholds, 3) the methods for approving journal entries and, 4) the positions responsible for approving entries. The policy has been incorporated into the Finance Department's internal policy manual.

Management's Update, June 30, 2011

During FY11 management emphasized the importance of compliance with the journal entry policy and performed review processes to assure compliance.

Baker Tilly Virchow Krause's Update, June 30, 2011

This issue has been satisfactorily addressed during FY 2011.

As a result of reviewing and testing the District's internal control system we found the control issue below that we believe should be addressed by management to strengthen the system of controls over the disbursements, reconciling and reporting functions. We have presented below our findings and recommendations.

Outstanding checks included in bank reconciliations: Our review of the District's various cash account reconciliation processes disclosed that many outstanding checks were several years old. Outstanding checks should be reviewed on a regular basis to determine the appropriateness of holding the items as outstanding checks. While there may be a variety of reasons why the checks are not cashed, it is each department's responsibility to make every attempt to contact the payee. For those checks that the District is unable to contact the payee, the District should follow the procedures of regulating unclaimed funds as outlined in State statutes.

Recommendation

We recommend that management review the activities cited above and develop an action plan to resolve the control risks and improve the District's internal control over these activities.

STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

Internal Control Issues (continued)

Management's Update, June 30, 2005

Management concurs with item above. Management will regularly review outstanding checks, and comply with State statutes regulating unclaimed funds. MPS does not currently have outstanding checks that meet the State's definition of unclaimed funds.

Management's Update, June 30, 2006

Management has requested an extension from the State to the November 1, 2006 deadline for remitting funds for checks outstanding for over one year. The extension will allow management time to explore alternatives to remitting funds to the State. If viable alternatives do not exist, management will comply with the State's procedures regarding unclaimed funds.

Management's Update, June 30, 2007

Management has requested input from the City Attorney on the above recommendation and is awaiting their response.

Management's Update, June 30, 2008

Updated requests from the City Attorney have been submitted.

Management's Update, June 30, 2009

Management continues to request updates from the City Attorney's Office on the status of its request to establish MPS specific procedures similar to those in place for the City of Milwaukee for processing outstanding checks. The City Attorney's Office has not provided an update. Management will prioritize this issue in FY10.

Management's Update, June 30, 2010

During FY10 a letter was sent to the City Attorney signed by the Chief Finance and Operations Officer requesting an opinion no later than July 31, 2010 on the disposition of un-cashed payroll checks. Based upon the City Attorney's opinion, management will take the actions necessary to be in compliance with Wisconsin statutes governing treatment of unclaimed property.

Management's Update, June 30, 2011

In January, 2011 MPS received the City Attorney's opinion regarding MPS exemption from state statutes concerning escheat of property. The opinion indicates that statutes providing exemption apply to counties, cities, villages and towns. In light of this, MPS will discuss possible statutory change with its lobbyist.

Baker Tilly Virchow Krause's Update, June 30, 2011

This comment will be reevaluated during the 2012 audit.

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.

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*, our report will contain the following restriction: "This report is intended solely for the information and use of the client's management, others within the District, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties."

- c. 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.
- d. We address the significant risks or material noncompliance, whether due to fraud or error, through our detailed audit procedures.
- e. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material noncompliance related to the federal and state awards 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 the federal and state awards and to determine whether they have been implemented. We will use such knowledge to:
 - > Identify types of potential noncompliance.
 - > Consider factors that affect the risks of material noncompliance.
 - > Design test of controls, when applicable, and other audit procedures.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

e.(cont)

Our audit will be performed in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, OMB Circular A-133, 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 OMB Circular A-133 and the *State Single Audit Guidelines*, our report will contain the following restriction: "This report is intended solely for the information and use of the client's management, others within the District, federal and state awarding agencies and pass-through entities and it not intended to be, and should not be, used by anyone other than these specified parties."

- f. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for reporting material noncompliance 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 entity's federal and state awards. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material noncompliance, whether caused by error or fraud, is detected.

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 District's Board of Directors 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. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements or the federal or state awards?

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

- a. The District'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.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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 June - August. 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. We typically perform the single audit fieldwork during the financial audit.

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.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

Our Responsibility under Auditing Standards Generally Accepted in the United States of America, *Government Auditing Standards*, OMB Circular A-133 and the State Single Audit Guidelines

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB Circular A-133 and the State Single Audit Guidelines. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the Board of Directors of their responsibilities.

We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal or major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Guidelines.

As a part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133 and the State Single Audit Guidelines, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State Single Audit Guidelines applicable to each of its major federal and major state programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

We have issued a separate document which contains the results of our audit procedures to comply with OMB Circular A-133 and the State Single Audit Guidelines.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

Other Information in Documents Containing Audited Financial Statements

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated December 10, 2010.

Qualitative Aspects of the District's Significant 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 will advise 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. As described in Note 1 to the financial statements, the District changed accounting policies by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting 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 and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive accounting estimates affecting the financial statements were management's estimates of the following items which are described below:

- Accrued compensated absences are based on anticipated future retirement levels and an average wage per hour based on the current retirees' salaries.
- Accrued claims for self-insurance are based on actual claims known at year end plus estimates of claims incurred but not reported as provided by the third party administrator.
- Post-employment life and healthcare insurance benefits' actuarial accrued liability which impacts the annual required contributions are based upon several key assumptions that are set by management with the assistance of an independent third party actuary. These assumptions include anticipated investment rate of return, health care cost trends, projected salary increases, mortality and certain cost amortization periods.
- Pension trusts actuarial value of plan assets and the actuarial accrued liability which generates the net funded status of the plan, as well as impacting the annual required contribution which is based upon several key assumptions that are set by management with the assistance of an independent third party actuary. These assumptions include anticipated investment rate of return, projected salary increases, mortality and certain cost amortization periods.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

Qualitative Aspects of the District's Significant Accounting Practices (continued)

***Accounting Estimates* (continued)**

We have evaluated the key factors and assumptions used in developing the aforementioned estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

Management has corrected all such misstatements.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, 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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

Management Representations

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

Independence

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

Relating to our audit of the financial statements of the District for the year ended June 30, 2011, Baker Tilly Virchow Krause, LLP hereby confirms in accordance with the Code of Professional Conduct by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the District and provided no services to the District other than the services provided in connection with the audit of the current year's financial statements, pupil membership audits and the parental consent audit.

Other Audit Findings or Issues

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.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.



**MILWAUKEE
PUBLIC SCHOOLS**

Department of Finance

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Milwaukee, Wisconsin 53201-2181
Phone: (414) 475-8288
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December 14, 2011

Baker Tilly Virchow Krause, LLP
115 South 84th Street, Suite 400
Milwaukee, WI 53214

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Milwaukee Public Schools ("District") as of June 30, 2011 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 District 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, and preventing and detecting fraud.

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

1. 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 and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all –
 - a. Financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal and state awards.
5. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

December 14, 2011

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7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - 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.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.
10. We have a process to track the status of audit findings and recommendations.
11. 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.
12. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
13. The District has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
14. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the District is contingently liable.
 - c. All accounting estimates that could be material to the financial statements including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
15. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all 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.

16. There are no –

- a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations including those pertaining to adopting and amending budgets, 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.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB Statement No. 5.
 - d. Nonspendable, restricted, committed, or assigned fund equity that were not properly authorized and approved.
 - e. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - f. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
17. The District 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.
18. The District has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
19. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
20. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
21. The financial statements properly classify all funds and activities.
22. 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.
23. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balances are properly classified and, if applicable, approved.
24. Provisions for uncollectible receivables have been properly identified and recorded.
25. 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.

26. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
27. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
28. Special and extraordinary items are appropriately classified and reported.
29. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
30. We have disclosed to you all potential derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
31. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
32. 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.
33. We assume responsibility for, and agree with, the findings of specialists in evaluating the other post employment benefits, pension benefits and insurance IBNR's 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.
34. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 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. Adjusting journal entries
35. 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 Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the State Single Audit Guidelines, including requirements relating to preparation of the schedule of expenditures of federal and state awards.

December 14, 2011

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35.(cont.)

- b. We have prepared the schedule of expenditures of federal and state awards in accordance with OMB Circular A-133 and the State Single Audit Guidelines, and have identified and disclosed in the schedule expenditures made during the audit period for all awards provided by federal and state 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 assistance.
- c. We acknowledge our responsibility for presenting the schedule of expenditures of federal awards (SEFA) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with the Circular. The methods of measurement and presentation of the SEFA 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 SEFA.
- d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the State Single Audit Guidelines.
- e. We are responsible for understanding and complying with, and have complied with in all material respects, 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 requirements applicable to 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 relevant to the programs and related activities subject to the governmental audit requirement.
- 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, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 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 requirements of federal and state awards, including the results of other audits or program reviews.
- j. We have disclosed to you all known noncompliance with the applicable compliance requirements subsequent to the period covered by the auditors' report.
- k. We are not aware of any instances of noncompliance with the applicable compliance requirements subsequent to the period covered by the auditors' report.

35.(cont.)

- l. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the applicable compliance requirements, if any, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- m. 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 relates to the objectives of the compliance audit, if any, including findings received and corrective actions taken up to the date of the auditors' report.
- n. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- o. We have disclosed to you our interpretation of compliance requirements that are subject to varying interpretations, if any.
- p. We have charged costs to federal and state awards in accordance with applicable cost principles.
- q. We have made available to you all documentation related to the compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- 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 are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 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.

Baker Tilly Virchow Krause, LLP

December 14, 2011

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35.(cont.)

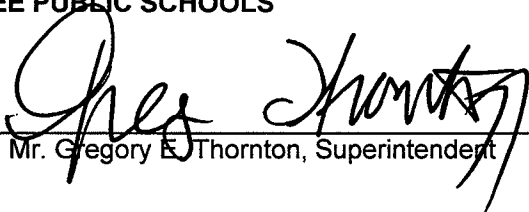
- u. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- v. We are responsible for preparing and implementing a corrective action plan for each audit finding.
- w. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

To the best of our knowledge and belief, no 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.

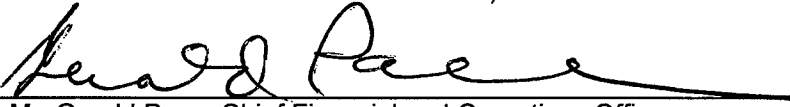
Sincerely,

MILWAUKEE PUBLIC SCHOOLS

Signed:


Mr. Gregory E. Thornton, Superintendent

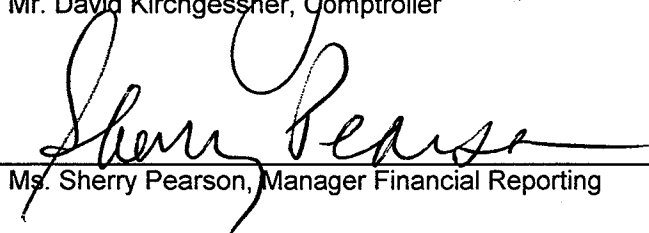
Signed:


Mr. Gerald Pace, Chief Financial and Operations Officer

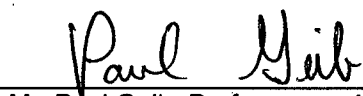
Signed:


Mr. David Kirchgessner, Comptroller

Signed:


Ms. Sherry Pearson, Manager Financial Reporting

Signed:


Mr. Paul Geib, Performance Audit Manager