

# **MILWAUKEE PUBLIC SCHOOLS**

Milwaukee, Wisconsin

## **COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT**

As of and for the Year Ended June 30, 2016

MILWAUKEE PUBLIC SCHOOLS

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**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS IDENTIFIED IN THE  
AUDIT TO THOSE CHARGED WITH GOVERNANCE**

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

In planning and performing our audit of the financial statements of Milwaukee Public Schools (District) as of and for the year ended June 30, 2016 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 that are appropriate in the circumstances 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.

A separate Communication to Those Charged with Governance and Management was issued for the Milwaukee Board of School Directors Supplemental Early Retirement Plan for Teachers and Milwaukee Board of School Directors Early Retirement Supplement and Benefit Improvement Plan. The information contained in that report is not included with this report.

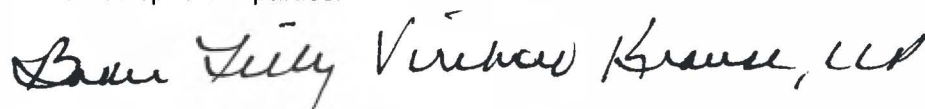
Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist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

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 in internal control that we consider to be significant deficiencies.

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.

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



Milwaukee, Wisconsin  
January 27, 2017

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**CURRENT YEAR ISSUES – DISTRICT WIDE**

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**Cash Reconciliations**

1. During review of the payroll concentration account, it was noted that there is an unreconciled variance of approximately \$122,500. There appears to be an issue with obtaining an accurate outstanding check list from PeopleSoft that does not require some manual adjustments.

***Recommendation***

We recommend that the District work with PeopleSoft and IT to obtain reports that properly reflect outstanding checks.

2. There are several departments within the District that prepare their own cash reconciliations in a system such as Quickbooks. These reconciliations are not being reconciled to what is reported in IFAS.

***Recommendation***

We recommend that the District reconcile these department reconciliations to IFAS and make all necessary journal entries.

***Management's Response, June, 30, 2016***

1. MPS agrees with this recommendation and intends to work with Technology and PeopleSoft (if necessary) to resolve this historic condition to obtain reports that properly reflect outstanding checks.
2. MPS believes that only the Recreation Department prepares its own reconciliation in QuickBooks for one bank account. Although this account is regularly reconciled on a monthly basis, going forward, we will make sure that these reconciliations are validated against the IFAS account balance and all necessary journal entries are made.

***Baker Tilly Virchow Krause's Updates, June 30, 2016***

This comment will be reevaluated during the 2017 audit.

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## STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

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### Contract Policy Compliance and Related Controls Evaluation

As we continue to monitor and test contract policy compliance and the related controls over the process, we noted during the FY15 audit process a sample of contracts and purchases tested that were in violation of the District's Administrative Policy 3.09.

The FY15 testing resulted in the following new findings:

1. In addition to the FY12 open item related to no policy / procedure documentation as to when an expenditure should be encumbered or unencumbered, we further note FY15 testing showed use of FY15 encumbrance to pay for FY14 invoice, a department with overstated encumbrances that had no review/analysis at year-end to ensure relevance of outstanding encumbrance, and negative encumbrances which require manual adjustments to YE encumbrance reporting.
2. In addition to the FY11 open item, it was noted that per 3.09(5)(a)(2) Contracts under \$50,000 can be executed by the procurement Director. There was one instance exceeding \$50,000 approved by the procurement Director.
3. 3.09(9)(a) All contracts must contain insurance requirements. There were instances where proof of insurance was not available.
4. As critical as it is for MPS to follow 3.09, clauses within the contracts themselves need to be monitored. Testing noted exceptions to contract requirements, including: paying invoices where calculations do not agree to the total amount paid, paying for disallowed expenses, requiring monthly invoicing but accepting two invoices for the full year, not validating required background checks occurred, work requiring quotes where payments were made without the quotes being present, and payment in excess of what would be considered reasonable / customary.
5. 3.09(17)(a) "No PO, No Pay" is not being consistently followed by FMS and there was one Non-FMS example of this not being followed.
6. 3.09(5)(e)(1)(a) Purchases made through existing contracts by another local, state, or federal governmental agency may be used when documentation support is maintained by procurement. There was an instance where support was not maintained and could not be provided.
7. There was one instance where the vendor's response to an RFP had their dollar amount increased when presented to the Board for approval.
8. 3.09(7)(b)(4) For non-professional services valued over \$50,000, there should be a competitive sealed bid process. There was one instance where this did not occur.

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## STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

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### Contract Policy Compliance and Related Controls Evaluation (continued)

In addition to the above, summarized below are the findings from prior year audits that were noted to still exist based on testing done during the FY15 audit process:

FY14 findings that continue to exist:

1. 3.09 (5) Delegation of Authority – Issuance of Purchase Orders B.1.a - Under \$50,000 - to be issued by the Director of Facilities and Maintenance Services - and were not.
2. 3.09 (15) Contract Compliance Services states that all procurements must comply with Administrative Policies which ensure competitive price quotations and participation by certified HUBs, COIN-certified individuals or MPS students. A contract tested did not have proper HUB sanctions.

FY13 findings that continue to exist:

1. Work started prior to Finance approving the contract - per 3.09 (5)(D) - no contracts shall be enforceable until final budget authority has been approved by department of finance.

FY12 findings that continue to exist:

1. Contracts are not being monitored for proper closing in the AIM system.
2. Encumbrances are not being unencumbered when appropriate. It should also be noted that there is currently no written policy or procedure that exists that addresses the timing of when to record an encumbrance.
3. During the review of a professional services contract it was noted that there was an agreement/contract in place that required estimated payments to be made during the fiscal year and then a "true-up" to actual subsequent to fiscal year end. Within 30 days after each lease year an itemized written statement of actual expenses should be delivered to MPS. This specific agreement also allowed for an audit by MPS within 180 days after the close of any lease year of the actual vs. estimated costs. We found that there could be adjustments that may be required to be made to the estimated amounts paid by MPS.

FY11 findings that continue to exist:

1. Under Board Action on November 18, 2010 (updated 3.09 (6)(b)) all contracts that bind the district to an amount exceeding \$50,000 or with a cumulative total exceeding \$50,000 in 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.

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## STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

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### Contract Policy Compliance and Related Controls Evaluation (continued)

#### ***Recommendation***

It is our understanding that MPS is continuing to evaluate the need for the implementation of additional controls, policy changes or additional procedures that will assist in eliminating these findings in the future. It should be noted that this is not a process that happens immediately and that an appropriate amount of time has to be allowed for issues to be addressed. We recommend that the District continue its evaluation of the existing policies and related controls in place and modify as appropriate to address the findings listed above.

#### ***Management's Response, June, 30, 2015***

##### FY15 Findings:

1. Encumbrances are to be unencumbered when contracts are closed and when purchase orders are completed. While MPS has developed a framework that covers aspects of the finding, a comprehensive procedure that covers every possible scenario is still in development. The Office of Finance, in conjunction with the Office of Accountability and Efficiency is in the process of establishing written encumbrance procedures and guidelines.
2. The Department of Procurement and Risk Management agrees that the noted instance was approved by the Procurement Director and was not submitted to the Board for approval. This contract did not involve the expenditure of board funds. This contract was for a student funded field trip, where funds were paid by students and supplemented with fundraising monies.
3. The Department of Procurement and Risk Management is in the process of identifying vendors to pilot certificate management software and services in the fourth quarter of FY16. These services will also address timing issues associated with the actual project work period and final payment and closing of the contract.
4. The Office of Finance, in conjunction with the Office of Accountability and Efficiency, will bring preliminary revisions for approval by the board in February, 2016. We anticipate that significant revisions will be submitted to the board in FY17.
5. The Office of Finance agrees with the FMS findings. However, the cited non-FMS example relates to payment for a commission-based program wherein commissions are not paid by the district.
6. MPS will re-enforce the requirement that procurement must maintain supporting documentation for purchases made through "piggyback" contracts.
7. The Compensation contained in the one contract instance identified contains a "not to exceed" amount. The difference in the quote and contract was intended to account for variable expenses related to travel. However, since the contract included the "not to exceed amount," the Compensation term did not obligate the district to pay the higher amount.
8. In the one instance identified, the vendor was paid as a pass-through expense as permitted under Administrative Policy 3.09(17). Pursuant to Section 115.525(6), *Wis. Stat.s*, the vendor may provide transportation to students. Further, the district is obligated to reimburse the vendor for such transportation under Section 118.51(17), *Wis. Stat.s*. Further, the transportation is procured by the vendor, not by the district's Department of Procurement and Risk Management, and as such, cannot be subject to the district's procurement policies.



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## STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

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### Contract Policy Compliance and Related Controls Evaluation (continued)

#### *Management's Response, June, 30, 2015 (continued)*

##### FY14 Findings:

1. The Office of Finance, in conjunction with the Office of Accountability and Efficiency, will be bringing preliminary revisions for approval by the board in February, 2016 that will address the 3.09(5) Delegation of Authority finding.
2. 3.09 states that procurements must comply with HUB, COIN, and student engagement requirements. Process updates have been made and it is believed that they have improved the control specific to this finding. The Office of Finance continues to work cooperatively with the Office of Accountability and Efficiency, and OAE's division of Contract Compliance Services to ensure all participation requirements (HUB, COIN, Student Engagement) are properly assigned and enforced.

##### FY13 Findings:

1. MPS is proposing preliminary revisions to 3.09 and anticipates significant revisions in FY17 that will more clearly define the finance approval required for contracts. The Department of Procurement and Risk Management continues to work on internal controls and efficiencies to ensure services do not begin prior to the execution of contracts.

##### FY12 Findings:

1. Contract closing in the AIM system will continue to be more closely monitored for timely closing. Reports have been developed and implemented to assist in this monitoring.
2. Encumbrances are to be unencumbered when contracts are closed and when purchase orders are completed. While MPS has developed a framework that covers aspects of the finding, a comprehensive procedure that covers every possible scenario is still in development. The Office of Finance, in conjunction with the Office of Accountability and Efficiency is in the process of establishing written encumbrance procedures and guidelines.
3. The Office of Finance conducted a review of estimated lease costs to actual costs in February 2014. Pursuant to the lease agreement/contract, the District and the lessor are in the process of negotiating the mutual selection of an auditor to review Lease Year 2014 (ended June 30, 2015). Once the review of Lease Year 2014 is complete, the District has proposed that the parties conduct an annual audit of the Estimated Operating Expenses within 180 days of the expiration of each lease year going forward.

##### FY11 Findings:

1. Following the creation of the Office of Accountability and Efficiency, MPS made revisions to 3.09 including updating the previous requirement that the board **approve** all contracts that bind the district to an amount exceeding \$50,000 or with a cumulative total exceeding \$50,000 in any given budget year. The current version of 3.09 requires board monthly reporting for cumulative expenditures exceeding \$50,000 in any given month. Each month, the Office of Finance, in conjunction with the Office of Accountability and Efficiency, submits to the board the Monthly Report on Contracts Under \$50,000 and Cumulative Total Report. This report contains a list of each contract entered into in that month, including the Year-to-Date expenditure with each vendor. This monthly submission meets the requirement set forth in the 3.09(6)(b).

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**STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE**

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**Contract Policy Compliance and Related Controls Evaluation (continued)****Baker Tilly Virchow Krause's Updates, June 30, 2016**

The District has made several revisions to Administrative Policy 3.09 to strengthen controls. During 2016 we tested contract compliance with 3.09 and noted no exceptions to the policy. This comment is considered addressed.

***Accounts Payable Reconciliation***

During the testing of accounts payable recorded at year-end it was noted that there is an approximate variance of \$200,000 between what should be recorded and what is actually recorded on the general ledger in fund 110. This variance is a carryover from prior years and was discussed with management at the completion of the FY14 audit.

***Recommendation***

The District should evaluate this variance and properly adjust as needed based on the evaluation.

***Management's Response, June, 30, 2015***

A process was implemented in FY14 to avoid the accumulation of the previously identified variance. We are currently working on properly adjusting this carryover variance from prior years and expect to have it completed during FY16.

***Management's Response, June, 30, 2016***

A detailed review and analysis of accounts payable revealed that this variance occurred when invoices were paid without posting corresponding entries to applicable expenditure accounts in prior years. Therefore, in FY16 these payable balances were posted as prior period adjustments to expenditures. The process remains in place to avoid the accumulation of future variances. MPS believes that this item is now fully resolved.

**Baker Tilly Virchow Krause's Updates, June 30, 2016**

This comment is considered addressed.

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## STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

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### **Petty Cash Reconciliation**

As part of the audit process we review the various cash account reconciliations. During that review it was noted that for the petty cash account there were numerous reconciling items that have been in existence for several years.

#### ***Recommendation***

The District should review the reconciling items that existed at year-end and determine proper resolution of each.

#### ***Management's Response, June, 30, 2015***

MPS is currently working on addressing the old reconciling items and expect to have a resolution by the end of FY16.

#### ***Management's Response, June, 30, 2016***

Based on a detailed review of reconciling items in the petty cash account reconciliation, in FY16 all necessary corrections to clear the reconciling items were made. In addition, aged reconciling items related to unpaid prior year capital cash advance errors or to closed schools were written off as uncollectible. MPS believes that this item is now fully resolved.

#### **Baker Tilly Virchow Krause's Updates, June 30, 2016**

This comment is considered addressed.

### **Account Writeoffs**

During FY15 there was a write-off of approximately \$380,000 of old accounts receivable related to a contract that the District had with a third party. The writing off of receivables is a reasonable procedure, however, there is no policy in place as to when the authority exists to write-off outstanding amounts owed to the District.

#### ***Recommendation***

The District should put into place a policy that states the procedures to follow, the positions within the District that have the authority to write-off past due receivables and what dollar thresholds that authority applies to and at what threshold the Board needs to be notified.

#### ***Management's Response, June, 30, 2015***

MPS agrees with this recommendation and will establish Bad-Debt Write Off procedures.

#### ***Management's Response, June, 30, 2016***

On August 25, 2016 the Board adopted the addition of item (12) Write-Off of Uncollectible Accounts to Administrative Policy 3.06 – Fiscal Accounting and Reporting and adopted Administrative Procedure 3.06(12): Write-off of Uncollectible Accounts. MPS considers this matter resolved.

#### **Baker Tilly Virchow Krause's Updates, June 30, 2016**

This comment is considered addressed.

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## STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

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### **Student Activity Funds Reconciliation**

Due to the timing of when secretaries leave for the summer, June bank reconciliations are not always done timely and are often completed when the employees return from summer break in September. The district obtains the June reconciliations at this later date but does not update the June 30<sup>th</sup> balances that are included in the District financial statements to reflect the fund's position as of June 30<sup>th</sup>.

#### ***Recommendation***

The District should accumulate all reconciliations as of June 30<sup>th</sup> and report the balance to the finance office so that proper adjustments can be made to the District year-end financial statements.

#### ***Management's Response, June, 30, 2014***

Reported June 30<sup>th</sup> Student Activity Fund balances provided to all parties prior to the receipt and completion of all June 30<sup>th</sup> bank reconciliations will be clearly labeled as "preliminary pending the update of X number of outstanding reconciliations". After all reconciliations are received, the final report of June 30<sup>th</sup> Student Activity Fund balances will be clearly labeled as "FINAL" and will be provided to all parties and for inclusion in the June 30<sup>th</sup> financial statements.

#### ***Management's Response, June, 30, 2015***

The FY14 management response was fully implemented. However, because a re-work resulting from human error was needed, MPS acknowledges that additional controls are needed in the process. Going forward, additional efforts will be made to further enhance the accurate reporting of this information.

#### ***Management's Response, June, 30, 2016***

The FY14 management response is fully implemented and additional controls were established in FY16. MPS believes that this item is now fully resolved.

#### ***Baker Tilly Virchow Krause's Updates, June 30, 2016***

This comment is considered addressed.

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## STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

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### **Food Service Invoicing and Three-Way Match**

During testing and review of internal audit reports, it was noted that there are several vendors that provide the District with an electronic upload of the amounts to be paid based off invoices sent. The invoices are sent to the food service department and the electronic upload documentation is sent to IT. IT uploads the document and finance then processes it for payment. There is currently no matching occurring between what the food service department receives from the vendor in a paper form and what IT uploads and finance pays.

#### ***Recommendation***

A process should be implemented to review the electronic files that are sent to IT. Food Service should match the invoices received individually or in total to the electronic upload and provide an approval to finance to pay the invoiced amount.

#### ***Management's Response, June, 30, 2014***

Starting with the 2014-15 school year, Food Service reviews the electronic files that are sent to IT and provides approval to finance to pay the invoiced amount. Currently, Food Service receives electronic files for upload from four vendors to facilitate accounts payable process. The following controls have been implemented and planned improvements to follow for each of the four vendors.

**Alpha** – Three-Way Match process has been developed and implemented to ensure accuracy of payments made each month starting September 2014.

**Kemps** – Three-Way Match process has been developed and implemented to ensure accuracy of payments made each month starting October 2014.

**Prairie Farms** – Three-Way Match process has been developed and implemented for select schools to ensure accuracy of payments made each month starting February 2015. Three-Way Match is planned for remaining school starting March 2015.

**US Foods** – Food Service central office staff ensures kitchen staff receives deliveries in OneSource (Food Service inventory management system). Any discrepancies are handled individually with the vendor. Three-Way Match process for this vendor is under development and we expect to start implementation beginning March 2015.

#### ***Management's Response, June, 30, 2015***

Starting in the 2014-15 school years, Nutrition Services reviews electronic files that are sent to IT and provides approval to finance to pay the invoiced amount. Nutrition Services receives electronic files for upload from four vendors to facilitate the accounts payable process.

**Alpha** – Three-Way Match process was developed and implemented to ensure accuracy of payments made each month starting September 2014.

**Kemps** – Three-Way Match process was developed and implemented to ensure accuracy of payments made each month starting October 2014. Effective 9/1/15, this vendor is not currently under contract with MPS.

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**STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE**

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**Food Service Invoicing and Three-Way Match (continued)*****Management's Response, June, 30, 2015 (continued)***

**Prairie Farms** – Three-Way Match process had partial, limited implementation. We are currently developing an expanded model that will account for multiple pricing. Implementation is planned to be applied November 2015.

**US Foods** – Nutrition Services central office staff ensures kitchen staff receive deliveries in One Source (Nutrition services operations software, includes inventory). Any discrepancies are handled individually with the vendor. The statement file is reviewed to ensure only received invoices are listed for payment. Three-Way Match process for this vendor is under development. Our goal is to develop an automated detailed process. Currently each week two invoices are selected for detail review to include such things as quantities ordered, quantities delivered and price. This is being used to identify potential issues as we work to develop an automated detailed three-way matching. Goal is to begin implementation by June 30, 2016.

***Management's Response, June, 30, 2016***

MPS agrees with this recommendation. This process consists of matching a high volume of low dollar transactions on a monthly basis, crossing multiple systems. Due to the volume of transactions and the complexity, nutrition services has been working with technology to develop the matching system. The formal project team was established in June 2016 and the project will be ongoing. The project plan establishes milestones during the 2016-17 year and will most likely extend beyond.

***Baker Tilly Virchow Krause's Updates, June 30, 2016***

This comment will be reevaluated during the 2017 audit and if progress has not been made in addressing, there will be consideration given to elevating to a significant deficiency.

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## STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

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### **Purchase Order Policy Compliance**

Administrative Policy 3.09 (17) established a “No PO, No Pay” policy whereas all purchases over \$500 require a purchase order. During annual disbursement testing it was noted that not all payments had the required purchase order. Certain departments were unaware of the change in policy to \$500 and were using an old threshold of \$3,000.

#### ***Recommendation***

The district should communicate the revised policy to all departments and re-educate them on the importance of adherence to the revised policy.

#### ***Management’s Response, June, 30, 2014***

A revision of 3.09 has been drafted that addresses the appropriate threshold for payments in the absence of a purchase order. It is anticipated this revision will be brought to the Board for approval in the first or second quarter of 2015.

#### ***Management’s Response, June, 30, 2015***

A revision of 3.09 has been drafted that addresses the appropriate threshold for payments in the absence of a purchase order. It is anticipated this revision will be brought to the Board for approval in the first or second quarter of 2016. As an interim improvement, the CFO, by the authority defined in 3.09, has authorized in writing an exception for purchase orders above \$500 for certain departments.

#### ***Management’s Response, June, 30, 2016***

On February 25, 2016, the board approved the following revision to Administrative Policy 3.09: Section 3.09(3) now states:

- “(a) All purchases of goods and services must be supported by purchase orders or contracts executed in accordance with this Policy.
- (b) Exceptions to the “No PO, No Pay” policy shall be as follows:
  1. purchases under \$500 that could not be purchased under an existing blanket contract and which were made with previous approval by the principal or departmental head; ...
  8. purchases of goods related to work orders issued by Facilities and Maintenance Services valued under \$3,000; ...”

#### ***Baker Tilly Virchow Krause’s Updates, June 30, 2016***

This comment is considered addressed.

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## STATUS OF PRIOR YEAR ISSUES – DISTRICT WIDE

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### Review of Trust Accounts

The Department of Finance should ensure that all trust agreements are on file with the district and that expenditures are in compliance with the agreement on file. When conducting testing of four trusts, we identified that three trusts did not have a trust agreement on file. When randomly selecting expenditures to test in these trusts, it was noted that the expenditure located and traced to the trust account, but since there is no agreement on file, there is not an indication if the expenditure is allowable.

#### ***Recommendation***

MPS should ensure that expenditures meet the restrictions of the trust. To properly ensure that this is occurring, BT recommends that the district obtains and files a copy of all trust agreements.

#### ***Management's Response, June, 30, 2012***

MPS agrees with the recommendation and maintains copies of all trust agreements received. Some trust contributions are received without trust agreements, which MPS believes to be the circumstances of the items cited above.

MPS reports trust contributions to the Board via the form Report of Gift to School from Outside Source. Copies of these are placed in the trust files for reference. These are referred to for spending stipulations. MPS assures that expenditures are made by the stipulated unit by checking the expenditures against the school or department referenced by the Report of Gift to School form.

#### ***Management's Update, June 30, 2013***

No change to June 30, 2012 Management Response. MPS agrees with the Baker Tilly recommendation and maintains copies of all trust agreements received.

#### ***Management's Update, June 30, 2014***

No change to the June 30, 2013 response. MPS agrees with the Baker Tilly recommendation and maintains copies of all trust agreements that are received.

#### ***Management's Response, June, 30, 2015***

A process is in place to ensure that trust agreements are on file for new accounts with additional control improvements planned for FY16. IFAS work flow approval process was implemented for trust expenditures to ensure compliance with trust agreements.

#### ***Management's Response, June, 30, 2016***

A formal process is in place to ensure that trust agreements are on file for all new accounts. IFAS work flow approval process was implemented for trust expenditures to ensure compliance with trust agreements. In addition, the accounts identified during FY15 as potentially needing to be classified as a different type of asset account have been reclassified and excluded from the trust balance in the FY16 financial statements. Further steps are planned to ensure all trust accounts are truly trust funds by the end of FY17.

#### ***Baker Tilly Virchow Krause's Updates, June 30, 2016***

This comment is considered addressed.



**OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**

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## TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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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 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.

- 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.

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## TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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e.(cont)

Our audit will be performed in accordance with U.S. generally accepted auditing standards, *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.

- 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.

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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT**

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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.

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS AND  
INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR  
SIGNIFICANT DEFICIENCIES**

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## OTHER COMMENTS AND INFORMATION POINTS

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### 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.

2. The OneSource application has no specific password rules or limitations. Active Directory password requirements include a maximum age of 180 days and a large (set greater than 100) invalid attempt threshold.

**Recommendation:**

Strong password requirements should be enforced for all systems where possible, including the following settings:

- At least 8-10 characters
- Require a combination of alphanumeric and special characters
- Expire at least every 90 days
- Disallow the last 8-24 passwords
- Disable the account after 3-5 invalid login attempts

Baker Tilly noted that while OneSource does not have specific password rules or limitations currently, there is active investigation ongoing into whether the authentication to OneSource could be tied into Active Directory (AD) or Lightweight Directory Access Protocol (LDAP), which would solve the issue except for the noted Active Directory piece.

It was noted that the reason for the large maximum password age and invalid attempt threshold was due to the large number of users. Baker Tilly recommends that if Milwaukee Public Schools determines that a lockout threshold of five is infeasible, the threshold should be investigated to identify a lower threshold consistent with the risk imposed by large invalid lockouts thresholds and the business needs.

3. No formal review of applicable SOC reports (Horizon MyPaymentsPlus) is performed.

**Recommendation:**

Formal SOC report reviews should be performed for all applicable third-party service providers annually. These reviews should:

- Confirm that the scope of the SOC report is appropriate for MPS to rely on (i.e., covers services that MPS uses the provider for)
- Any exceptions or control failures identified in the SOC report are evaluated for their impact on MPS
- All applicable User Entity Controls (UECs) that are expected of MPS are evaluated to ensure MPS has the relevant control or the UEC is not applicable

The reviews should be formally and centrally documented and maintained. Furthermore, a step can be included in any vendor onboarding to determine if a SOC review should be performed.

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## OTHER COMMENTS AND INFORMATION POINTS

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### Information Technology Best Practices (continued)

4. 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.

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## INFORMATIONAL POINTS

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### ***OTHER POST EMPLOYMENT BENEFIT (OPEB) REPORTING CHANGES ON THE HORIZON***

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The new OPEB standards parallel the pension standards GASB Nos. 67 and 68. Together, the pension and OPEB standards provide consistent and comprehensive guidance for all postemployment benefits.

OPEB plans will implement the new standards beginning with the year end June 30, 2017. Governments that provide OPEB benefits to their employees will need to implement these standards beginning with the year end June 30, 2018.

This standard has similarities to the previous OPEB standards, most notably the definition of an OPEB and the option of the alternative measurement method for small governments. However, the calculation and reporting of the OPEB liability and various required disclosures will change under the new standards, becoming similar to the pension standards.

To implement this standard, your government will need to plan ahead for obtaining a new actuarial study. The selection of a measurement date and timing for the study will be important to consider well in advance of implementation. We are available to further discuss this standard, the timing, and impact on your government.

**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**



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

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of Milwaukee Public Schools for the year ended June 30, 2016 and have issued our report thereon dated January 27, 2017. This letter presents communications required by our professional standards.

**Our Responsibility under Auditing Standards Generally Accepted in the United States of America, Government Auditing Standards, the Uniform Guidance, 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's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 considered the District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. We also considered internal control over compliance with types of requirements that could have a direct and material effect on a major federal and major state program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

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 the Uniform Guidance 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) Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of its major federal and 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 on compliance, it does not provide a legal determination on the District's compliance with those requirements.

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

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## REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

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### **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 21, 2015.

### **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 I to the financial statements. As described in Note I to the financial statements, the District changed accounting policies related to financial reporting for fair value measurements by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Accordingly, the effect of the accounting change had no significant effect on the financial statements. 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.

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## REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

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

#### ***Accounting Estimates*** (continued)

- 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.
- Management's estimate of the net pension liabilities and the deferred outflows and inflows related to pensions which impacts the reported pension expense are based on 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.

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 notes to 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 our audit.

#### **Corrected and Uncorrected Misstatements**

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.

There were no such misstatements identified.

#### **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 auditors' 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.

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## **REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE**

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### **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, 2016, 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.

### **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 RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to 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 statement 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.

**Restriction of Use**

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

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

*James Kelly Vinkow Kruse, CEO*

Milwaukee, Wisconsin  
January 27, 2017

## MANAGEMENT REPRESENTATIONS



January 27, 2017

Baker Tilly Virchow Krause, LLP  
777 E Wisconsin Ave  
32nd Floor  
Milwaukee, WI 53202

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 as of June 30, 2016 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 and all component units 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. 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.
26. 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.
27. The financial statements properly classify all funds and activities.
28. 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.
29. 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.

30. The Milwaukee Public Schools has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
31. We believe that we have properly identified all derivative instruments and any embedded derivative instruments that require bifurcation. The utility's hedging activities, if any, are in accordance with its documented and approved hedging and risk management policies. The utility follows the valuation, accounting, reporting and disclosure requirements outlined in GASB No. 53. We believe the timing, nature, and amounts of all forecasted transactions are probable of occurring. The fair values of all derivatives and hedged items have been determined based on prevailing market prices or by using financial models that we believe are the most appropriate models for valuing such instruments and that incorporate market data and other assumptions that we have determined to be reasonable and appropriate at year end.
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 investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.
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' 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 postemployment benefit obligations and pension asset/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. 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

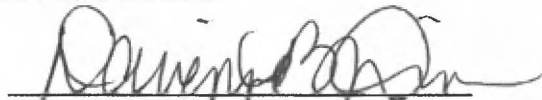
changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.

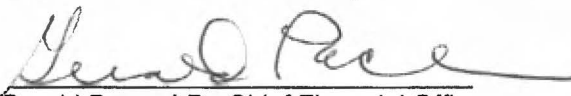
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass through entities relevant to the programs and related activities.
- h. We have received no requests from a federal or state agency to 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.

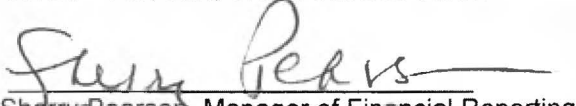
- t. We have monitored subrecipients to determine that they have expended pass through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance and the State Single Audit Guidelines.
- u. We have taken appropriate action, including issuing management 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.

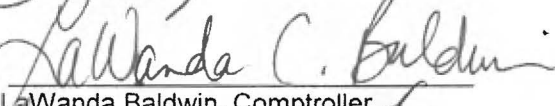
Sincerely,

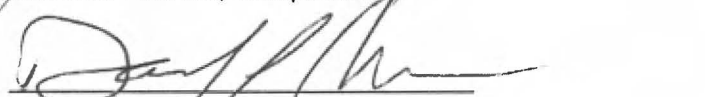
Milwaukee Public Schools

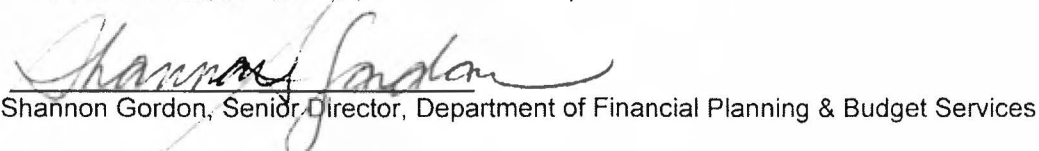
Signed:   
Darienne B. Driver, Ed.D., Superintendent

Signed:   
Gerald Pace, J.D., Chief Financial Officer

Signed:   
Sherry Pearson, Manager of Financial Reporting

Signed:   
LaWanda Baldwin, Comptroller

Signed:   
Daniel J. Chanen, J.D., M.Ed., Chief Human Capital Officer

Signed:   
Shannon Gordon, Senior Director, Department of Financial Planning & Budget Services