

(ATTACHMENT 2) ACTION ON RECOMMENDED PLAN OF AUDITS AND DISTRICT RISK-ASSESSMENT PLAN

**OFFICE OF AUDIT SERVICES
ANNUAL PLAN OF AUDITS — FISCAL YEAR 2018**

FINANCIAL AUDIT

A) Audit: Basic Financial Statements

MPS is required to have an annual examination of MPS’s basic financial statements. The Office of Board Governance-Audit Services, which has overall responsibility for the annual year-end examination, contracts with a certified public accounting firm to perform the audit. The accounting firm conducts the audit in accordance with government auditing standards to form an opinion on the basic financial statements. The audit includes the two early-retirement pension plans, a Report on Internal Control, and a Status Report on the Prior Year’s Internal Controls.

- The Report on Internal Control details areas in which internal accounting controls need to be enhanced.
- The Status Report on the Prior Year’s Internal Controls reports on management’s prior-year comments and management’s progress in implementing those recommendations.

In addition to the audits of the financial statement, the District is required to have a Report on Federal and State Awards (Single Audit), Student Membership (general, summer school, and integration transfer program) Audits, and a Parent Consent for Transportation Audit.

- The Single Audit satisfies the audit requirements of both the state and federal governments for all state and federal funds received by MPS.
- The Student Membership Audits and Parent Consent for Transportation Audit satisfy the audit requirements mandated by Wisconsin statutes and the Wisconsin Department of Public Instruction.

In addition to coordinating and monitoring the year-end audit activities, Audit Services is responsible for completing various segments of the year-end audit.

<i>Estimated Resource Allocation — Internal</i>	<i>72 days</i>
<i>Estimated Resource Allocation — External</i>	<i>228 days</i>
<i>Estimated Start Date</i>	<i>July 2017</i>
<i>Estimated Completion Date</i>	<i>December 2017</i>

DEPARTMENTAL AND PROGRAM AUDITS-(CYCLIC)

B) Cyclic Audit: Review of Recreation Department Checking Accounts — Department of Recreation and Community Services (Carryover from FY17)

The Department of Recreation and Community Services maintains several checking accounts for registration in outdoor education, therapeutic recreation, Fifty-Five Plus, playgrounds and community centers, childcare, and recreational programs. In FY18, the Recreation Department is implementing new software (Vermont) which functions like a cash register. Revenues are collected for class registrations, sales of snacks, field trips, Special Olympics events, attendance at Oak Ridge Farm, and t-shirt sales. Disbursements include payments for purchases of food and supplies for

classes, food for farm animals, transportation for field trips, etc. Funds are also received from Wisconsin Works for students in camp and other programs and are distributed to the respective schools and programs.

This review will determine the adequacy of internal controls and processing procedures (e.g., are transactions properly authorized, recorded, documented, and safeguarded?), as well as timeliness and accuracy of account reconciliations. We will review balance sheets, bank reconciliations, cash receipts, and cash-disbursement procedures. This audit will also seek to identify opportunities to improve the effectiveness and efficiency of checking accounts, cash handling, and internal controls.

Cyclic Audit: Review of Encumbrance Management — Office of Finance

The Board’s School Operations (General) Fund budget uses the encumbrance method of accounting. Under this method, the District commits funds to an unperformed contract, such as purchase orders, and records the expenditure as a liability incurred for goods and services not yet paid. Open encumbrances are reported as a fund-balance reserve.

Audit Services will review several potential areas related to the management and monitoring of encumbrance activity, including:

1. an assessment of existing policies and procedures pertaining to these processes;
2. the controls to monitor multi-year contracts, those with “not to exceed” amounts, future-year encumbrances, and current-year carryover amounts;
3. determination of whether adequate processes exist for manual and automatic encumbrances; and
4. determination of how the encumbrance process will be addressed in the new software (Infor) being implemented in FY19.

<i>Estimated Resource Allocation</i>	<i>120 days</i>
<i>Estimated Start Date</i>	<i>July 2017</i>
<i>Estimated Completion Date</i>	<i>December 2017</i>

Other cyclic audit areas may include payroll; financial reporting — grants management; IT security; fixed-asset reporting; procurement; and selected areas of operations for individual offices, such as Office of Human Resources, Office of Academics, Office of Innovation and Information, Office of Finance, Office of Operations, Office of School Administration, and Office of the Superintendent. These cyclic reviews would be scheduled on a recurring basis to ensure that areas of district operations deemed as higher-risk/higher-impact are reviewed on a periodic basis.

C) Audit: Follow-up on Previously Issued Audit Reports

In order to ensure that all audit recommendations have been properly implemented, Audit Services tracks and follows up on the audit recommendations to determine the status of district administration’s corrective actions. Follow-up reviews are planned for one previously issued report.

<i>Estimated Resource Allocation</i>	<i>60 days</i>
<i>Estimated Start Date</i>	<i>January 2018</i>
<i>Estimated Completion Date</i>	<i>June 2018</i>

D) Non-cyclic Program Evaluations

These reviews, which will focus on one or two higher-risk operational areas, may include purchasing-card transactions, best-practices in fixed-asset management, use and oversight of district-wide (DW) accounts, summer school programs, computer-disposal controls, and Infinite Campus data controls.

Best Practices Review of Fixed-Asset Management

Audit Services conducts school audits to determine the adequacy of controls related to proper recording and safeguarding of district assets. These audits have identified that the internal controls over the District’s fixed assets, including portable technology equipment, are often inadequate, placing these assets at a high risk of theft, loss, or misappropriation.

Audit Services will design a survey tool for 25 school districts to identify best practices to address areas of fixed-asset inventory management, including controls over acquisition, disposals, and tracking of assets. This feedback will be used to develop an effective fixed-asset-management system for MPS and controls to protect assets.

<i>Estimated Resource Allocation</i>	<i>45 days</i>
<i>Estimated Start Date</i>	<i>July 2017</i>
<i>Estimated Completion Date</i>	<i>June 2018</i>

Other areas of review that could be considered on a non-recurring basis include language-immersion programs, IB programs, Montessori programs, bilingual programs, and other district operations, such as benefit eligibility, transportation, and use of professional services contracts.

FRAUD INVESTIGATIONS AND OTHER REVIEWS

E) Audit: Special Audits and Projects

Staff from the Office of Board Governance-Audit Services have the responsibility for special audits, fraud investigations, and other projects, including reviews of external charter school audit reports for Contracted School Services. Requests for analysis, investigations, and specific information are received from board members, the Superintendent, the management of the Office of Accountability and Efficiency, and the Director of the Office of Board Governance.

In addition, Audit Services operates the Fraud Hotline. Upon receipt, complaints are reviewed and, if deemed appropriate, investigated. A Fraud, Waste and Abuse Annual Report summarizing the results of fraud complaints and tips received is issued to the Board, to the Superintendent, and to the public. Enhancements to fraud-reporting tools have led to an increase in tips received. New for FY18 is an Administrative Policy and Procedure 6.38, Theft, Fraud, Waste, Abuse, Illegal or Unethical Behavior, which defines reporting requirements.

Special Projects may include:

- reviews of the District’s fitness-for-hire process, of schools with overspent budgets, of student-enrollment processes, of the music department’s instrument-inventory control, of opting out of school uniforms, and of high-school incident reporting;
- updating of the District’s annual risk assessment; and
- development of a district-wide ethics training in conjunction with the Office of Human Resources.

<i>Estimated Resource Allocation</i>	<i>547 days</i>
<i>Estimated Start Date</i>	<i>Ongoing</i>
<i>Estimated Completion Date</i>	<i>Ongoing</i>

SCHOOL AUDITS

F) Audit: Alternative/Early Childhood Partnership Schools

The District contracts with schools to provide alternative education and early childhood education to MPS students. The audit will review the operations of these schools to determine the extent to which the schools:

1. comply with administrative policy and contract provisions; and
2. appropriately use the financial resources provided by MPS.

Schools are selected for review on a rotating basis. Audits of two partnership programs and a related management letter are proposed to be completed in FY18.

<i>Estimated Resource Allocation</i>	<i>29 days</i>
<i>Estimated Start Date</i>	<i>January 2018</i>
<i>Estimated Completion Date</i>	<i>June 2018</i>

G) & H) Audit: Charter School Financial and Performance Audits

Charter schools are required by their charter-school contracts to contract for a financial audit and an annual performance-and-compliance audit. The audits are conducted in accordance with government auditing standards.

One of the objectives of the financial audit of MPS charter schools is to express an opinion on the fairness of the schedule of revenues and expenditures. The objective of the performance/compliance audit is to report on the charter school’s compliance with the performance, administrative, and fiscal provisions of the contract.

The charter school has the option to contract with Audit Services or with an independent certified public accountant to perform the audits. For FY18, five charter schools have contracted with Audit Services.

<i>Estimated Resource Allocation</i>	<i>78 days</i>
<i>Estimated Start Date</i>	<i>July 2017</i>
<i>Estimated Completion Date</i>	<i>February 2018</i>

I) Audit: School Audits

Schools have control over a significant portion of their local school budgets. In addition, schools are expected to achieve accountability standards, to meet the Board’s strategic objectives for student achievement and equity, and to comply with fiscal and administrative guidelines. The Board, in recognition of the schools’ authority to make key decisions regarding their own operations, has directed Audit Services to initiate a continuous program of individual school audits. The program continues the cyclical audits of MPS schools. Thirteen (13) schools will be selected for audit during FY18.

The purpose of the review is to assess whether the existing internal controls over a school’s financial activities can be relied upon to ensure that activities involving the student-activity-fund, fixed assets, and payroll-exception reporting are properly authorized, recorded, documented, and

safeguarded. Compliance with fire-drill, textbook-management, and student-attendance procedures is also reviewed.

<i>Estimated Resource Allocation</i>	<i>110 days</i>
<i>Estimated Start Date</i>	<i>July 2017</i>
<i>Estimated Completion Date</i>	<i>June 2018</i>

J) Audit: School Audits — New-principal, Follow-up, Carryover, and School-Closing

A newly-assigned principal may request audits to assist in determining the financial and other conditions at a school. The review conducted is identical to the continuous program of school audits.

Follow-up reviews may be conducted for those schools where prior audits have determined that internal controls were significantly deficient.

School-closing audits, with a focus on financial transactions, are conducted to assist the Administration with close-out activities at these schools.

Seven new-principal audits and three school carryover audits are scheduled.

<i>Estimated Resource Allocation</i>	<i>68 days</i>
<i>Estimated Start Date</i>	<i>August 2017</i>
<i>Estimated Completion Date</i>	<i>June 2018</i>