

**U.S. Department of Education
Office of Inspector General**

**American Recovery and
Reinvestment Act of 2009**

**Milwaukee Public Schools: Use of Funds and Data Quality for Selected
American Recovery and Reinvestment Act Programs**

Final Audit Report



ED-OIG/A02K0009

April 2011

Abbreviations, Acronyms, and Short Forms Used in this Report

C.F.R.	Code of Federal Regulations
Department	U.S. Department of Education
DPI	Department of Public Instruction
DOA	Department of Administration
ES	Education Stabilization
FY	Fiscal Year
GS	Government Services
IDEA	Individuals with Disabilities Education Act, Part B, Special Education Grants to States
IFAS	Integrated Financial and Administrative Solution
IPA	Independent Public Accountant
IT	Information Technology
LEA	Local Educational Agency
MPS	Milwaukee Public Schools
OESE	Office of Elementary and Secondary Education
OIG	Office of Inspector General
OMB	Office of Management and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
SFSF	State Fiscal Stabilization Fund

Technology Center

School Support Center-Assistive Technology

TER

Time and Effort Report

Title I

Title I, Part A of the Elementary and Secondary Education Act of 1965, as amended



**UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL**

**AUDIT SERVICES
New York Region**

April 21, 2011

Tony Evers, Ph.D.
State Superintendent
Wisconsin Department of Public Instruction
125 South Webster Street
Madison, WI 53703

David P. Schmiedicke
Deputy Budget Director
Department of Administration
Division of Executive Budget and Finance – State Budget Office
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Dear Dr. Evers and Mr. Schmiedicke:

This **final audit report** presents the results of our review titled “Milwaukee Public Schools: Use of Funds and Data Quality for Selected American Recovery and Reinvestment Act Programs.”

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate Department of Education officials.

If you have any additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following Education Department officials, who will consider them before taking final Departmental action on this audit:

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It is the policy of the U. S. Department of Education to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within **30 days** would be appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. § 552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

/s/

Daniel P. Schultz
Regional Inspector General for Audit

Enclosure

**U.S. Department of Education – Office of Inspector General
Milwaukee Public Schools: Use of Funds and Data Quality for Selected
American Recovery and Reinvestment Act Programs**

Control Number ED-OIG/A02K0009

PURPOSE

The American Recovery and Reinvestment Act of 2009 (Recovery Act) places a heavy emphasis on accountability and transparency, and in doing so, increases the responsibilities of the agencies that are impacted by the Recovery Act. Overall, the U.S. Department of Education (Department) is responsible for ensuring that education-related Recovery Act funds reach intended recipients and achieve intended results. This includes effectively implementing and controlling funds at the Federal level, effectively ensuring that recipients understand requirements and have proper controls in place over the administration and reporting of Recovery Act funds, and promptly identifying and mitigating instances of fraud, waste, and abuse of the funds.

The purpose of our audit was to determine whether Wisconsin's Milwaukee Public Schools (MPS), a local educational agency (LEA): (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported data that were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements. The scope of our audit covered information reported on the December 31, 2009, Section 1512 quarterly report, which included expenditures that were reimbursed to MPS for the period April 3, 2009, to December 31, 2009. We focused our audit on MPS's use of funds and data quality related to Title I, Part A of the Elementary and Secondary Education Act of 1965 (Title I); Individuals with Disabilities Education Act, Part B, Special Education Grants to States (IDEA); and State Fiscal Stabilization Fund (SFSF) program funds received through the Recovery Act.

RESULTS IN BRIEF

We determined that MPS generally used Recovery Act IDEA and SFSF program funds in accordance with applicable laws, regulations, and guidance.¹ In addition, we determined that MPS's reported jobs and subaward data were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements. However, MPS did not properly track SFSF program funds as required by Federal regulations and the Department's guidance. Specifically, MPS did not adjust its accounting records to account for the \$75.8 million of SFSF program funds it received during our audit period. In addition, MPS did not separately track the two components of SFSF, Education Stabilization (ES) and Government Services (GS), as required by the Department's guidance.

Finally, we noted that MPS needs to improve its internal controls over Federal funds, including Recovery Act funds. We found that MPS did not follow its own procedures for obtaining

¹ Because the State of Wisconsin's Department of Public Instruction (DPI) did not disburse Title I Recovery Act funds to MPS during our audit period and no disbursements to MPS were reported on the Section 1512 report for that period, there were no Title I expenditures within the scope of our audit to test. Although we did not test Title I Recovery Act expenditures, we did assess MPS's controls over Recovery Act Title I funds.

semiannual employee certifications, pre-approving journal entries, and tracking its computer equipment. In addition, MPS had policies and procedures that were inadequate to ensure the proper segregation of duties in the Accounts Payable department and did not require that Information Technology (IT) passwords be changed periodically. MPS needs to address these weaknesses because these internal controls apply not just to Recovery Act funds, but to all Federal funds.

We provided a copy of our draft audit report to the State of Wisconsin's Department of Public Instruction (DPI) and Department of Administration (DOA)² for review and comment on February 10, 2011. In their comments dated March 14, 2011, DPI and DOA did not fully agree or disagree with our findings. However, DPI and DOA specifically disagreed with Recommendation 1.1 and provided a description of procedures that DPI implemented to address Recommendation 1.2. In addition, DPI and DOA agreed with Recommendation 2.1 and provided a description of corrective actions that MPS planned to implement to address Recommendation 2.2. DPI's and DOA's comments are summarized at the end of each finding. The entire narrative of DPI's and DOA's comments is included as the Enclosure to this report.

BACKGROUND

The Recovery Act was signed into law on February 17, 2009, and had three immediate goals: (1) create new jobs and save existing ones, (2) spur economic activity and invest in long-term growth, and (3) foster accountability and transparency in government spending. To ensure transparency and accountability of Recovery Act spending, recipients are required to submit quarterly reports on Recovery Act awards, spending, and jobs impact under Section 1512 of the Recovery Act. According to the Office of Management and Budget (OMB), the reports should contain detailed information on the projects and activities funded by the Recovery Act and will provide the public with transparency into how Federal dollars are being spent. The reports will also help drive accountability for the timely, prudent, and effective spending of Recovery Act funds.

Wisconsin was awarded in total more than \$1.2 billion in Title I, IDEA, and SFSF program funds through the Recovery Act. Wisconsin disbursed \$552,278,000 of its SFSF program funds to DPI to offset the reductions in State General Aid.³ On May 11, 2009, Wisconsin's Legislative Fiscal Bureau reduced fiscal year (FY) 2008-2009 income tax collection estimates by \$408 million. As a result, there was a shortage of funds for State General Aid. The Wisconsin Legislature and the Wisconsin Governor's Office instructed DPI to distribute SFSF program funds expeditiously to LEAs, including MPS, to offset the reduction in State General Aid resulting from the large FY 2008-2009 shortfall.

² According to DOA's Web site, the Secretary of DOA works closely with the Governor to direct all Executive Branch agencies to develop and implement Statewide goals, especially in the areas of financial and program management.

³ State General Aid is aid that is not limited to any specific program, purpose, or target population and that may be used in financing the general educational program as desired by the recipient district.

MPS consists of 184 schools, which include 118 elementary schools, 8 middle schools, 40 high schools, and 18 schools with combined grades. According to the 2009-2010 data, there are 82,444 students enrolled in MPS in grade levels ranging from kindergarten through high school. During 2009, MPS was allocated about \$171.5 million of Title I, IDEA, and SFSF program funds received through the Recovery Act (see Table 1). We selected MPS for review because its allocation represented 14 percent of Wisconsin’s total awards for those programs. This 14 percent represents the largest allocation to an LEA in the State. As of December 31, 2009, MPS expended around 44 percent or about \$76 million of its total Recovery Act allocations for Title I, IDEA, and SFSF.

Table 1: Recovery Act Funding for Selected Programs as of December 31, 2009				
Program	Awarded To Wisconsin	Allocated To MPS**	Expended By MPS	Percent Of Allocation Expended (%)
SFSF ES	\$717,336,999*	\$65,999,929	\$65,999,929	100.0
SFSF GS	\$159,603,097	\$9,840,917	\$9,840,917	100.0
SFSF Subtotal	\$876,940,096	\$75,840,846	\$75,840,846	100.0
Title I	\$147,729,443	\$65,917,963	\$0	0.0
IDEA	\$208,200,108	\$29,767,158	\$118,756	0.4
TOTAL	\$1,232,869,647	\$171,525,967	\$75,959,602	44.3

*Awarded over a 2-year period.

**Year one allocation to MPS.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – MPS Did Not Properly Account for SFSF Program Funds

We found that MPS did not properly account for and track SFSF program funds as required by Federal regulations and the Department’s guidance. Specifically, MPS did not adjust its accounting records to account for the \$75.8 million of SFSF program funds. In addition, MPS did not separately track the two components of SFSF, ES and GS funds, as required by the Department’s guidance.

According to Section 443(a) of the General Education Provisions Act (20 U.S.C. Section 1232f (a)), each recipient of SFSF program funds must maintain records that fully disclose how those funds were used, the total cost of the activity for which the funds were used, the share of that cost provided by other sources, and such other records as will facilitate an effective audit. In addition, the Department’s “Guidance on the State Fiscal Stabilization Fund Program,” dated April 2009, states that an LEA must maintain records that separately track and

account for its SFSF ES funds and report on the specific uses of those funds. In the “Guidance for Grantees and Auditors, State Fiscal Stabilization Fund Program,” dated December 24, 2009, the Department further clarified that States and LEAs must maintain documentation that demonstrates the amount of SFSF program funds used to support salaries. Entities should demonstrate, at a minimum, that an aggregate amount of funds was used to support a group of salary expenses. To show that these costs are “reasonable and necessary,” the entities must maintain contemporaneous documentation to show that individuals for whom salary is paid worked sufficient hours to justify the salary. However, MPS did not adjust its accounting records using methods such as separate account codes and adjusting entries to account for the aggregate amount of SFSF ES and GS funds separately.

To demonstrate that it had sufficient expenditures to account for the \$75.8 million of SFSF program funds it received, MPS provided two pools of expenditures from its school general operation fund (Fund 110).⁴ The pools of expenditures included teacher payroll costs of \$76.2 million and substitute teacher payroll costs of \$6.7 million. These pools of expenditures had been recorded and accounted for as school general operation funds by MPS. MPS did not create account codes and adjusting entries to reclassify these payroll expenditures from school general operation expenditures to SFSF program expenditures. As a result, these payroll expenditures could not be specifically identified or traced to MPS’s Recovery Act SFSF program funds.

In addition, LEAs were not advised about how much of their SFSF program funds were ES and how much were GS until September 2009. Of the \$75.8 million in SFSF program funds that MPS received, \$66 million was ES funds and \$9.8 million was GS funds, but MPS was not advised that it needed to track these funds separately. Consequently, MPS treated the SFSF program funds as if they were regular school general operation funds and used them to reimburse previously incurred expenses that normally would have been paid with its regular State General Aid funds. MPS applied SFSF program funds to blocks of expenditures included in pools of cost categories charged to account codes for school general operation funds. Although MPS identified pools of eligible expenditures, it did not follow through with appropriate accounting entries that would allow for the proper accounting and tracking of ES and GS funds.

The above conditions confirmed the concerns we expressed in our report titled “State of Wisconsin American Recovery and Reinvestment Act of 2009 Use of Funds and Reporting,” ED-OIG/A02K0005, dated September 29, 2010, that SFSF program funds were not properly accounted for at the LEA-level. MPS did not properly account for and track specific SFSF program expenditures because of the (1) legislative directives approved by the Wisconsin Governor requiring speedy distribution of SFSF program funds and (2) inadequate instructions from DPI to LEAs in accounting for and tracking SFSF program funds.

⁴ The school general operation fund was used by MPS to record expenses paid with State General Aid or local revenue.

RECOMMENDATIONS

We recommend that the Director of the Department's Implementation and Support Unit require the Wisconsin Governor's Office and DPI to –

- 1.1 Require MPS to adjust its accounting records to account for, at a minimum, the aggregate amount of payroll expenditures that should have been charged to SFSF ES and GS separately.
- 1.2 Provide timely information and guidance to LEAs to ensure that Federal funds were properly segregated and accounted for at LEAs.

DPI and DOA Comments

DPI and DOA did not fully agree or disagree with this finding. DPI and DOA did not concur with Recommendation 1.1 because it would require the use of limited resources to open MPS's prior year financial statements, which they consider to be unreasonable. In relation to Recommendation 1.2, DPI and DOA stated that, despite difficulties, DPI did its best to provide timely information to grant subrecipients. DPI and DOA also described additional procedures implemented by DPI for the allocation of SFSF for FY 2009-2010.

DPI and DOA pointed out that difficulties in administering the SFSF program funds for FY 2008-2009 were caused by a lack of time to disburse the funds and the lack of Department guidance. DPI and DOA stated that the timeline for the disbursement of funds to supplement the State General Aid payments made to school districts was extremely short because of the late timing of State Legislative directives. However, DPI received permission from the Department to allow LEAs to apply past expenditures to SFSF funds. DPI understood this to mean that it did not need to disburse SFSF funds through a claim process that proactively tracked a specific dollar to a specific expenditure.

DOA and DPI noted that MPS provided the Office of Inspector General (OIG) with documentation to support the use of Recovery Act funds for teacher salaries. These compensation controls were deemed to be adequate by DPI and the State Budget Office. Further, DPI and DOA believed it was unreasonable to expect MPS and other LEAs to open prior year financial statements to adjust accounting records, given the extensive process required to do so and the current lack of resources.

In addition, according to DPI's and DOA's response, DPI provided LEAs with tools necessary to assign ES and GS funds to specific and actual expenditures. These tools included: (1) updating and notifying LEAs of the project codes to use to account for SFSF funds; (2) notifying LEAs via a June 16, 2009, listserv that the Recovery Act funds would not be treated as low-risk programs for Federal single audit purposes; and (3) notifying LEAs of their ES and GS allocations on September 16, 2009. Again, DPI and DOA noted that the timing of Legislative directives prevented these items from happening in advance of expenditures for FY 2008-2009. However, they stated that DPI implemented procedures for the proper allocation and administration of SFSF funds for FY 2009-2010.

OIG Response

Many of the comments provided by DPI and DOA have already been addressed in the final audit report titled “State of Wisconsin American Recovery and Reinvestment Act of 2009 Use of Funds and Reporting.” We acknowledge that the circumstances under which SFSF funds were appropriated for FY 2008-2009 created difficulties in the administration of those funds. However, given the Recovery Act’s heavy emphasis on accountability and transparency, our conclusion that MPS did not properly track SFSF program funds as required by Federal regulations and the Department’s guidance remains unchanged.

We acknowledge DPI’s and DOA’s concerns related to the lack of resources needed to implement Recommendation 1.1. However, MPS has not adequately distinguished ES and GS expenditures for tracking purposes. Based on the Department’s “Guidance on the State Fiscal Stabilization Fund Program,” dated April 2009, an LEA must maintain records that separately track and account for its SFSF ES funds and report on the specific uses of those funds. Further the Department’s “Guidance for Grantees and Auditors State Fiscal Stabilization Fund Program,” dated December 24, 2009, clarified that States and LEAs must maintain documentation that demonstrates the amount of SFSF program funds used to support salaries. It specifically states, “For the purposes of the SFSF program only, entities may demonstrate, at a minimum, that an aggregate amount of funds was used to support a group of salary expenses.” Recommendation 1.1 calls for compliance with this minimum requirement. We recognize that allocating SFSF funds to an allowable pool of salary expenditures is an appropriate method of accounting for the use of the SFSF funds. However, MPS only demonstrated that there were enough allowable expenditures to cover their SFSF allocation. They did not identify in their accounting records the specific pool of allowable expenditures charged to SFSF ES and GS funds. Without implementing Recommendation 1.1, MPS will not have the documentation necessary to fully disclose how the funds were used, which will obscure the transparency and accountability required for Recovery Act funds.

Furthermore, we recognize that DPI did make an effort to provide information and guidance to LEAs. However, it was not provided in a timely manner to facilitate proper accounting of SFSF funds by LEAs. LEAs were provided with one project code on May 20, 2009, to track SFSF funds. DPI did not provide the two separate codes needed for LEAs to track SFSF ES and GS program funds separately. Although the June 16, 2009, listserv noted that the Recovery Act funds would not be treated as low-risk programs for Federal single audit purposes and that many districts would be required to have a Federal single audit of SFSF funds as a result, it did not mention that SFSF ES and GS funds needed to be tracked separately. By the time LEAs were notified about their allocations for ES and GS funds on September 16, 2009, the fiscal year had ended and the books were closed.

We also recognize DPI’s efforts to implement improvements to its process for administering its SFSF funds for FY 2009-2010. If properly implemented, we believe that these corrective actions would address our concerns. However, as the SFSF funds distributed in FY 2009-2010 were outside the scope of this audit, we did not review these procedures or verify that they were implemented.

FINDING NO. 2 – MPS Needs to Improve Its Internal Controls Over Federal Funds Including Recovery Act Funds

During our audit, we identified several internal control weaknesses that impacted MPS's Federal funds, including Recovery Act funds for Title I, IDEA, and SFSF. Specifically, MPS did not follow its own procedures for obtaining employee semiannual certifications, pre-approving journal entries, and tracking its computer equipment. In addition, MPS had policies and procedures that (1) were inadequate to ensure the proper separation of duties in the Accounts Payable department and (2) did not require IT passwords be changed periodically. MPS had internal control weaknesses because it did not enforce its own policies and procedures and it did not update its policies and procedures. Without proper internal controls over Federal funds, MPS cannot ensure the effective and efficient use of Federal resources, compliance with laws and regulations, and accountability over Federal programs, including Recovery Act programs.

Untimely Distribution, Completion, and Review of Semiannual Certifications

MPS did not distribute and review the semiannual certifications in a timely manner for full-time employees whose entire salaries were charged to Federal funds for IDEA and Title I, including associated Recovery Act funds. OMB Circular A-87, Attachment B, Item 11.h (3) requires that the periodic certifications that support salary charges from employees who worked solely on a single Federal award be prepared at least semiannually. MPS distributed two Time and Effort Report (TER)⁵ forms once a year, in May, instead of twice a year as required by OMB Circular A-87. Both TER forms had June 30, 2010, preprinted on them as the date the TER forms were certified and submitted. Therefore, the TER forms for the first half of the year were not distributed or signed timely and did not adequately support the payroll costs.

We reviewed the one full-time employee whose \$26,783 in salary earned during our audit period was charged solely to Recovery Act IDEA funds. As described in the paragraph above, we found for this one individual that the TER forms were not distributed and reviewed in a timely manner. According to MPS's manager of financial planning, the same methodology was applied to all full-time employees dedicated to Federal grants. Based on the 58 TER forms we reviewed, this also affected 14 full-time employees who were paid with Recovery Act funds.

According to MPS's manager of financial planning, the semiannual certifications were not completed timely because MPS did not have the resources to effectively accomplish the semiannual certification process twice a year. During the November 10, 2010, exit meeting, MPS indicated that it would assign additional personnel to ensure that semiannual certifications are completed as required for all Federal funds. MPS should ensure the semiannual certification policy is followed to prevent untimely submissions, which could potentially result in improper allocation of Federal funds.

Approval Not Always Obtained for Journal Entries

MPS did not always obtain approval for journal entries as required by its own written policy. According to MPS's policy, journal entries prepared by grant accounting specialists for reclassification purposes must be approved by the manager of financial reporting. However, this

⁵ MPS's semiannual certifications were called TER forms. TER forms were used to report the percentage of time and effort a full-time employee dedicated to a Federal grant.

policy was not always enforced. According to OMB Circular A-87, Attachment A (c)(1)(e), for costs to be allowable, the costs must be consistent with policies and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. We found that MPS did not follow its own journal entry approval policy for the three journal entries selected for review.

As part of the sample testing for Recovery Act IDEA expenditures, we reviewed both journal entries that had been made under IDEA funds. The two journal entries, totaling \$27,685, were posted by grant accounting personnel to reclassify IDEA expenditures to Recovery Act IDEA expenditures. We found that proper approval was not obtained for both entries. In addition, as part of our sample testing for teacher payroll costs, we reviewed 1 out of 33 journal entries made to the teacher payroll that were applied by MPS to SFSF program funds. We found that the required approval was also not obtained for this journal entry to reclassify Title I payroll expenditures totaling \$60,592 to the State General Aid account.⁶ In addition, for the fiscal year ended June 30, 2009, MPS's Independent Public Accountant (IPA) reported in a Management Letter that this condition was a repeat finding dating back to 2006. We found that this condition was still occurring because it had not yet been resolved. Expenditures could potentially be improperly reclassified into accounting codes for Federal funds, including Recovery Act funds if journal entries are posted without proper approval.

Procedures Not Followed for Loaning Computer Equipment

MPS officials at the School Support Center-Assistive Technology (Technology Center)⁷ did not follow procedures for loaning out computer equipment, including equipment purchased with Recovery Act funds. Pursuant to the equipment management requirements in 34 Code of Federal Register (C.F.R.) Section 80.32(d)⁸, a subgrantee must develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of property. MPS required a Short Term Equipment Loan Request form be completed by individuals borrowing computer equipment for use during the school year. The form must also be signed by the school principal. However, during our testing of non-payroll expenditures for Recovery Act IDEA, we found that the Technology Center did not ensure compliance with this policy. Of the 15 forms we reviewed, none of the forms were completed properly. This could make it difficult to identify missing equipment and protect computers from being lost or stolen. For instance, when we attempted to locate 1 of the 20 laptop computers that were paid for with Recovery Act IDEA funds, MPS officials could not locate it at its assigned location. However, on a follow-up visit, MPS officials produced the laptop computer for our inspection. If MPS does not enforce its computer loaning procedures to ensure compliance with Federal regulations, computer equipment could be at risk of being stolen or lost.

Inadequate Accounts Payable Policy

MPS's policy was not sufficient to ensure the proper segregation of accounts payable duties as it related to the Integrated Financial and Administrative Solution (IFAS) system. According to 34 C.F.R. Section 76.702, a subgrantee shall use fiscal control procedures to ensure proper

⁶ As stated in Finding No. 1, MPS applied teacher payroll costs from the State General Aid account to SFSF. As a result, this journal entry was included in our sample.

⁷The Technology Center loans equipment to schools to aid teachers in the teaching process.

⁸ Regulatory citations are to the July 1, 2009, volume.

disbursement of and accounting for Federal funds. Furthermore, OMB Circular A-133 Compliance Supplement (March 2009), Part 6 – Internal Control, states that (1) control activities should include adequate segregation of duties provided between performance, review, and recordkeeping of a task and (2) operating policies and procedures should be clearly written and communicated.⁹ However, we found that MPS’s written policy did not align with the accounts payable activities in IFAS, which resulted in improper segregation of duties.

MPS’s written accounts payable policy stated that an accounts payable employee with authority to perform (1) vendor setup, (2) payment approval (manual approval outside of IFAS), (3) payment distribution, and (4) check processing, would violate the segregation of duties policy. However, we found that an accounts payable employee did not need to perform all four functions in IFAS to issue a payment. This situation did not represent proper segregation of accounts payable duties and increased the risk of improper payment.

According to MPS’s financial information specialist, an accounts payable employee could pay an invoice in IFAS by creating the vendor to be paid (corresponding to duty 1), distributing a payment to a vendor¹⁰ (corresponding to duty 3), and printing a check (corresponding to duty 4). In addition, the payment approval was completed manually, not in IFAS. Therefore, we concluded that an employee was not required to perform all four functions to violate the segregation of duties policy and the employee could print checks in IFAS without proper approval. This did not represent a proper segregation of accounts payable duties. Our overall concern with MPS’s policy was confirmed after we found that the accounts payable supervisor and one of the accounting assistants had access rights for duties 1, 3, and 4 in IFAS, which could enable them to print checks without approval. Proper segregation of duties should prevent an employee from performing tasks that could enable that employee to make payments without approval.

During our audit, we mentioned to the comptroller that the level of access in IFAS for the above two employees was excessive. In June 2010, at the comptroller’s request, the access for the two employees was changed so they could no longer perform duty 3. However, MPS did not update its written accounts payable policy to reflect this change to prevent future issues with excessive IFAS access. To ensure requirements related to the proper segregation of duties were clearly communicated to employees, MPS should update its written accounts payable policy.

IT Passwords Not Changed Periodically

MPS did not require that IT passwords for MPS’s █████ system and network systems be changed periodically. The passwords were changed only at MPS employees’ discretion. According to OMB Circular A-133 Compliance Supplement (March 2009), Part 6 - Internal Control, control activities should include computer and program access controls. Password control is part of access controls used to protect system resources from unauthorized use, loss, or

⁹ OMB Circular A-133 Compliance Supplement, Part 6 is not authoritative criteria. It is intended to assist non-Federal entities in complying with the applicable laws and regulations by presenting characteristics of internal control which may be used to reasonably ensure compliance with the applicable compliance requirements.

¹⁰ “Distribute a payment” is the process in IFAS that removes a voucher from the pending review list to the list of items that will be paid on the next check run. In addition to that step, “distribution” also causes the item to be recorded in the General Ledger. Without “distribution,” the item is not yet recorded in the General Ledger.

modification. Furthermore, MPS's IPA reported the same issue in its Management Letter to MPS dated December 11, 2009. MPS stated during our November 10, 2010, exit meeting that it expected the school board to approve the purchase of new software to address the problem at the next board meeting. Since our November 10, 2010, exit meeting, the school board has approved the purchase for the software on December 16, 2010, but it has not yet been implemented. Without proper controls over passwords, unauthorized users may improperly gain access to MPS's network and the [REDACTED] system, which could result in unauthorized users accessing and modifying financial data.

RECOMMENDATIONS

We recommend that the Assistant Secretary for Elementary and Secondary Education in coordination with the Assistant Secretary for the Office of Special Education and Rehabilitative Services and the Director of the Department's Implementation and Support Unit require the Wisconsin Governor's Office and DPI to instruct MPS to –

- 2.1 Enforce MPS's current policies and procedures for obtaining semiannual certifications, approving journal entries, and loaning computer equipment.
- 2.2 Ensure that MPS updates and implements procedures to ensure proper segregation of accounts payable duties and require that IT passwords be changed periodically.

DPI and DOA Comments

DPI and DOA indicated that MPS agreed to implement the recommendations associated with Finding No. 2. MPS agreed to enforce its policies and procedures for obtaining semiannual certifications and approving journal entries. In addition, MPS indicated that it (1) had reviewed and revised its policies and procedures relative to loaning computer equipment; (2) had acquired a new password management system that will allow for the mandatory changing of passwords; and (3) will update its policies and procedures to ensure proper segregation of accounts payable duties. DPI and DOA also indicated that DPI plans to confirm that MPS implemented the recommendations.

OIG Response

We acknowledge MPS's efforts and DPI's plan to verify the implementation of our recommendations for Finding No. 2. If the corrective actions described are properly implemented, we believe they would address our concerns.

OTHER MATTERS

During the course of the audit, we identified an issue related to the SFSF program funds. In particular, we found that MPS initially applied teacher payroll expenditures from its school general operation fund to the \$75.8 million of SFSF program funds. These teacher payroll costs reflected salaries incurred between March 17, 2009, and June 30, 2009, but paid between April and June 2009. However, the Department initially approved March 23, 2009, as the

beginning of the period of availability for Wisconsin's SFSF program fund. Based on this, we preliminarily estimated approximately \$4.9 million in teacher payroll costs that were incurred before March 23, 2009, were unallowable and notified MPS.

Subsequently, we contacted the Office of Elementary and Secondary Education (OESE) to confirm whether the costs that MPS incurred prior to March 23, 2009, and paid after this date were considered within the period of availability for SFSF program funds. OESE determined that the beginning of the period of availability for Wisconsin should be changed from March 23, 2009, to February 17, 2009. OESE notified the Wisconsin Governor's Office on November 18, 2010, of this change. However, we determined that although MPS applied SFSF program funds to pools of expenditures that were incurred within the period of availability, it did not properly account for the SFSF program funds in its accounting records, as described in Finding No. 1.

SCOPE AND METHODOLOGY

The purpose of our audit was to determine whether the LEA, MPS: (1) used Recovery Act funds in accordance with applicable laws, regulations, and guidance; and (2) reported data that were accurate, reliable, complete, and in compliance with Recovery Act reporting requirements. The scope of our audit covered information reported on the December 31, 2009, Section 1512 quarterly report, which included expenditures that were reimbursed to MPS for the period April 3, 2009, to December 31, 2009. We performed fieldwork at MPS located in Milwaukee, Wisconsin. Our audit covered the use of funds, which included cash management, and the quality of data submitted to FederalReporting.gov to comply with the Section 1512 reporting requirements for the quarterly report for period ending December 31, 2009.

Our audit work focused on Recovery Act funds for Title I, IDEA, and SFSF. Because DPI did not disburse Recovery Act Title I funds to MPS as of December 31, 2009, and no subaward disbursements were reported by MPS on the Section 1512 report for that period, there were no Recovery Act Title I expenditures within the scope of our audit to test. However, we did assess MPS's controls over Recovery Act Title I funds.

To achieve our objectives, we

- Obtained background information about the program, activities, and organizations being audited;
- Gained an understanding of the requirements applicable to the appropriate use of Recovery Act funds and data reporting at State agencies and LEAs by reviewing Federal laws, regulations, OMB Circulars, and Recovery Act guidance issued by OMB and the Department;
- Gained an understanding of MPS's administration of Recovery Act programs and identified the relevant internal controls MPS had in place to manage the Recovery Act funds by:
 - Interviewing officials from various MPS departments/divisions, including Finance, Procurement, Title I Services, Special Services, Administrative Accountability, District and School Improvement, Compensation, Technology, and Audit Services, and

- Reviewing MPS's written policies and procedures that were applicable to the administration of Recovery Act funds.

In addition, we interviewed MPS's IPA and reviewed supporting workpapers related to MPS's 2009 Single Audit Report to identify and evaluate findings and recommendations that were relevant to our audit objectives. We also performed audit steps to obtain reasonable assurance of MPS's compliance with Federal requirements in the following areas:

Use of Funds: We reviewed MPS's compliance with cash management requirements. To determine whether MPS had adequate controls in place to minimize the time between receipt of Federal funds and disbursement, we reviewed MPS's controls for disbursing and drawing down funds and interviewed MPS's director of finance. In addition, we verified MPS's compliance with cash management requirements by comparing the time between distribution and receipt of MPS's Recovery Act IDEA and SFSF program funds.

To assess MPS's control structure over the use of Recovery Act funds, we (1) reviewed MPS's procedures for approving and accounting for Recovery Act expenditures; (2) interviewed officials from the following departments/divisions: Procurement, Accounts Payable, Payroll, Finance, and Technology; and (3) observed processes for purchasing, payment processing, and check printing.

To determine whether Recovery Act funds were used in accordance with applicable laws, regulations, and guidance, we randomly and judgmentally sampled IDEA expenditures (see Table 2) and the teacher payroll costs that MPS applied to SFSF program funds (see Table 3). The judgmental sampling approach allowed us to target our testing on high dollar amount expenditures, and the random sampling approach provided an unbiased representation of the population. Because there is no assurance that the judgmental sample was representative of the entire universe, the results should not be projected over the unsampled expenditures.

For the sampled payroll expenditures, we reviewed personnel files, earnings statements, timesheets, and employee certifications to verify the existence of the employees and that the salary charges were supported and allowable. For the sampled non-payroll expenditures, we reviewed purchase orders, invoices, payment process batches, receiving reports, and cancelled checks to verify that the expenditures were supported and allowable. We also performed site visits and interviewed officials from 11 schools and the Technology Center to verify the existence of computer equipment selected as part of the sampled IDEA non-payroll expenditures.

For the Recovery Act IDEA payroll expenditures, we selected a total of 4 out of 16 employees whose salaries were charged to Recovery Act IDEA funds. Of the four employees selected, three were randomly selected and one was judgmentally selected because it was the highest salary amount charged to Recovery Act IDEA funds.

For Recovery Act IDEA non-payroll expenditures, we further divided the expenditures into non-printing charges and printing charges. We separated these charges because the printing charges were for printing services provided by MPS's Duplicating Office¹¹ and did not have vendor

¹¹ MPS had a Duplicating Office that offered printing services to MPS schools and central services departments.

information associated with them. We selected a total of 7 out of 77 vendors/transactions associated with costs that were charged to IDEA funds:

- We judgmentally selected five vendors that had the highest dollar amount from the nine vendors associated with non-printing costs charged to Recovery Act IDEA funds (see Table 2);
- We judgmentally selected the 2 largest printing transactions from a total of 68 printing transactions (see Table 2).

Table 2: Sample Selection for IDEA Payroll and Non-Payroll Expenditures				
	Total Amount Charged to IDEA	Total Number of Employees/Vendors/ Transactions	Sampled IDEA Amount	Sampled Number of Employees/Vendors/ Transactions
Random Payroll Selection	\$38,799	16	\$2,206	3
Judgmental Payroll Selection			\$26,783	1*
Total IDEA Payroll	\$38,799	16	\$28,989	4
Judgmental Selection for Non-Printing Charges	\$52,721	9	\$51,956	5
Judgmental Selection for Printing Charges	\$6,982	68	\$1,583	2**
Total IDEA Non-Payroll	\$59,703	77	\$53,539	7

* This sampled transaction was a journal entry.

**One of these sampled transactions was a journal entry.

For the teacher payroll costs that MPS applied to its SFSF program funds, we stratified the teacher salaries¹² based on salary amount. We selected a total of 10 teachers from the 3 strata representing the highest salary ranges (see Table 3).

¹² The \$76.2 million of teacher payroll costs MPS identified for the SFSF program funds included teacher salaries, 50 percent of employee benefits, and more than \$1 million in negative adjustments.

Table 3: Sample Selection for Expenditures Applied to SFSF Program Funds*				
Strata (in thousands)	Total Salaries Applied to SFSF	Total Teachers	Sampled Salaries	Sampled Teachers
\$0 - \$10	\$1,327,107	425		
\$10 - \$20	\$27,920,112	1801	\$77,897	5
\$20 - \$30	\$22,431,749	993	\$90,142	4
\$30 - \$100	\$464,334	10	\$69,717**	1**
Total	\$52,143,302	3,229	\$237,756	10

*All sample items were selected randomly except where otherwise noted.

**This sample item was selected judgmentally because it was the highest salary amount. It also included a journal entry.

We relied, in part, on computer-processed data obtained from MPS's IFAS system. To ensure the completeness of the Recovery Act IDEA expenditure data and teacher payroll cost data that MPS applied to SFSF program funds, we compared the total from IFAS to the total that DPI disbursed to MPS from DPI's WiSMART system. We constructed the populations of Recovery Act IDEA and SFSF program expenditures based on the amounts reported on the December 31, 2009, Section 1512 report and selected sample items from these expenditures to arrive at our findings, as described above. In addition, for the sampled expenditures we compared computer-processed data to supporting documentation and supporting documentation to computer-processed data. Based on the work we performed, we concluded that the computer-processed data were sufficiently reliable for the purpose of our audit.

Section 1512 Data Quality: We verified the accuracy and completeness of the number of jobs saved/created by reviewing the formula MPS used in calculating the number of jobs and the supporting documentation. We also verified the accuracy and completeness of the subaward disbursement amount MPS reported to DPI for the December 31, 2009, Section 1512 report by comparing it to the amount of funds MPS received from DPI as of December 31, 2009, and the supporting expenditure data. Based on the work we performed, we concluded that the computer-processed data were sufficiently reliable for the purpose of our audit.

We conducted onsite fieldwork at Milwaukee, Wisconsin, from April 26, 2010, to June 9, 2010. We held our exit conference with MPS and DPI on November 10, 2010.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions

based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



Tony Evers, PhD, State Superintendent

March 11, 2011

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RE: ED-OIG/A02K0009 Draft Audit Report dated February 2011

Dear Mr. Schultz and Ms. Dollard:

Thank you for the opportunity to review the Office of Inspector General's (OIG) draft audit report related to the Milwaukee Public Schools (MPS): Use of Funds and data Quality for Selected American Recovery and Reinvestment Act (ARRA) Programs. We appreciate your work regarding our responsibilities related to these one-time funds.

Similar to OIG report A02K005, this report identifies OIG concerns regarding the detailed accounting transactions of Wisconsin's SFSF funds which appears to disregard the 2009 timetable for creation and implementation of the ARRA SFSF program; allowance for disbursement of funds to meet a critical shortfall in State of Wisconsin funds for education; reimbursement of expenditures in the end of the fiscal year when the majority of accounting transactions had already been processed; fiscal years close; audits commence and finally clarifying policies and procedures are released by the federal government. As you know, then Governor Doyle introduced his 2009-11 biennial budget bill to the State Legislature on February 17, 2009. The bill proposed allocating SFSF to the state's primary school aid formula in fiscal years 2009-10 and 2010-11, not fiscal year 2008-09. Had the Governor's request been implemented, DPI would have been able to develop a system to track LEA expenditures in a manner that addressed OIG's concerns. Instead, Wisconsin's revenue picture deteriorated so quickly, that the State needed to use the SFSF funds for Fiscal Year 2008-09. Unfortunately, there was virtually no written federal guidance regarding ARRA reporting requirements at that time.

Nonetheless, DPI staff and officials from the State Budget Office in the Wisconsin Department of Administration proactively contacted U.S. Department of Education (ED) officials regarding the use of ARRA SFSF on May 21, 2009. We specifically asked ED officials whether Wisconsin could use ARRA SFSF funds for general school aid purposes immediately in FY09, to which the ED agreed. The ED also supported DPI's collection of assurances from each LEA describing that the expenditure of SFSF funds would be in compliance with the expense categories defined by the ARRA law. We hope your final report will acknowledge these efforts.

Enclosure

Daniel Schultz
Theresa Dollard
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In addition, the draft audit report downplays the fact the Wisconsin Legislature passed legislation related to the appropriation of SFSF Governmental Services (GS) funds on June 11, 2009, (2009 Wisconsin Act 23). Enactment of this legislation occurred one business day prior to the state statutorily-required release of \$1.6 billion in state primary formula aids, of which Act 23, combined with Act 11 enacted on May 15, allocated \$552.3 million in SFSF to replace an equivalent amount of state funding. The draft states “DPI worked quickly to include the SFSF funds in the June 15, 2009, State General Aid payment to offset the budgetary shortfall for the LEAs without verifying whether the LEAs had enough actual expenditures allowable under the SFSF program.” While it is accurate that DPI did not specifically verify every LEA expenditure in advance, doing so was not possible given there was only one business day between enactment of the SFSF allocation, which included the addition of the SFSF GS funds, and the actual statutorily required distribution of payments to individual LEAs. Further, Wisconsin met the intent of the SFSF to stabilize state budgets and save jobs that faced devastating cuts due to the recession of 2008 and 2009.

The draft audit report also does not appear to recognize the well-established fiscal monitoring procedures currently in place at DPI. The report implies there was little monitoring of expenditures, which we do not believe is true. During OIG’s audit, your staff noted that DPI was developing risk-based strategies to further strengthen the fiscal monitoring of all federal grant programs, even prior to receiving ARRA funding.

Attached are our responses to your specific audit findings. If you have questions please contact Sue Linton at 608/266-3320. We appreciate the opportunity to provide you with our written comments and look forward to additional discussion as you finalize this report.

Sincerely,

/s/

Tony Evers PhD
State Superintendent

/s/

David Schmiedicke
Deputy Budget Director
Department of Administration

TE/CP/aw

Mike Thompson, DPI
Sue Grady, DPI
Brian Pahnke, DPI
Bob Hanle, DOA

Enclosure

DPI Response to OIG Draft Report ED-OIG/A02K0009, February 2011

Finding No. 1 Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education require the Wisconsin Governor's Office and DPI to:

- 1.1 Require MPS to adjust its accounting records to account for, at a minimum, the aggregate amount of payroll expenditures that should have been charged to SFSF ES and GS separately.
- 1.2 Provide timely information and guidance to LEAs to ensure that Federal funds were properly segregated and accounted for at LEAs.

Responses to Finding #1.1

The Wisconsin Department of Public Instruction and the Governor's Office do not concur with this recommendation. As described in the response to the OIG audit report titled *State of Wisconsin American Recovery and Reinvestment Act of 2009: Use of Funds and Reporting* ED-OIG/A02K0005, the timeline for the disbursement of funds to supplement the State Aids payments to school districts in 2009 was extremely short. Districts were not aware until the final days of their school year (and fiscal year) that the SFSF SF and GS funds were used to supplement their State General Aid payment.

With respect to tracking SFSF funds generally: By enacting 2009 Wisconsin Act 11 on May 15, 2009, the Legislature required DPI to use SFSF funds in fiscal year 2008-09, which had been previously unanticipated. DPI immediately sought assistance from the U. S. Department of Education (ED). During its May 21, 2009, teleconference, ED informed DPI and the State Budget Office that LEAs could apply SFSF funds to expenditures dating back to March 23, 2009, so long as assurances were signed. By permitting LEAs to apply SFSF funds to past expenditures, DPI understood that ED sanctioned the use of SFSF monies to reimburse LEAs for funds already spent, thereby precluding a claims process that proactively tracks a specific dollar to a specific expenditure. DPI was confident that enough allowable expenditures existed within the period of eligibility (after March 23, 2009) to absorb the \$552.3 million in SFSF distributed to LEAs on June 15, 2009.

With respect to tracing ES and GS funds separately: We also believe that DPI provided LEAs with the tools necessary to assign ES and GS funds to specific and actual expenditures. It is true that extreme circumstances prevented this from happening in advance of expenditures, or through a claims- or application-type process. The Legislature did not appropriate GS SFSF funds until one business day prior to the June 15, 2009, State General Aid payment. We believe that the short time frame between the Legislature's directive in Act 23 and the June 15 payment was the cause of difficulty in separately tracking ES and GS funding. Due to the short turn-around time to provide districts with the ability to track their expenditures for the SFSF – ES and GS, DPI calculated each LEA's SFSF payment portion as 87 percent ES and 13 percent GS. These percentages were proportionate to the amounts drawn from the Federal Cash Management system under the ES and GS codes.

Of note is that it is standard procedure for the DPI's School Financial Services team to provide LEAs, via DPI's School Financial Services team website, with a list of coding for federal and state programs administered by DPI. This document is continually updated for newly created

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DPI Response to OIG Draft Report ED-OIG/A02K0009, February 2011

account codes and was updated on May 20, 2009, with the new SFSF project code number 810 to be used in tracking or identifying SFSF expenditures.

In a DPI list serve dated June 16, 2009, districts were notified that the ARRA funds would not be treated as low-risk programs for federal single audit purposes and that many districts would be required to have a federal single audit as a result of the SFSF funds. Based on that notification, LEAs were aware of the need to be able to identify the expenditures funded by ARRA for audit purposes. We believe the short time frame between the Wisconsin Legislature's directive in Act 23 and the June 15 payment was the cause of difficulty in separately tracking ES and GS funding prior to payment and was not within DPI's control. Further, SFSF monies used in the June 15, 2009, payment functioned as a reimbursement for costs already incurred. Under Acts 11 and 23, DPI was statutorily required to pay the funds only two weeks before the close of fiscal year 2008-09, at which time most school years had concluded and most expenses had been paid.

DPI procedures are, and have been, in place to perform on-site visits of the independent audit firms. During the 2008-09 visits, DPI auditors reviewed the audits of the SFSF funds and cited several audit firms for not properly auditing these funds per the OMB Circular A-133 compliance supplement. LEA independent auditors are required to perform their audit work during the months of July and August so that audited data required for the State Equalization Aid calculation is provided to DPI by the first week of September. The addendum to OMB Circular A-133 compliance supplement, which addresses the audit of the SFSF, was not made available until August 2009. As a result, auditors were forced to design audit procedures based on professional judgment in order to provide data to DPI by the first week of September 2009.

To open up financial records that were closed in June 2009 to adjust accounting records to record the aggregate amount of payroll expenditures that were charged to SFSF ES and GS would involve at least the following steps:

- Creating and setting up new account codes;
- Reopening the General Ledger for FY09;
- Preparing and processing several journal entries;
- Reviewing the general ledger to ensure the journal entries were properly recorded;
- Running reports to ensure that the state report and CAFR reports for FY09 and FY10 have not changed, and finally;
- Submitting these reports to the independent public accountant and DPI for review and approval.

MPS has provided the OIG auditors with proof that they expended teacher salary dollars in the appropriate time frame to support the use of the ARRA funds received. DPI and the State Budget Office believe that these are appropriate and adequate compensation internal controls given the circumstances surrounding the initial sudden and unexpected inclusion of ARRA funds in the General State Aids disbursement in June 2009. To require MPS or other LEAs to open up prior year financial statements at this late date is an unreasonable expectation and would require the expenditure of resources that are not in abundance in 2011.

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DPI Response to OIG Draft Report ED-OIG/A02K0009, February 2011

Responses to Finding #1.2

Given the unprecedented speed with which ARRA programs were created and the funding was made available to states and the lack of timely and clear policies and procedures, the Wisconsin Department of Public Instruction and the Governor's Office did their best to provide timely information to grant subrecipients. With regard to the SFSF funds, school districts:

- Were notified in an email listserv message on April 28, 2009, of the project codes to use to account for the SFSF funds.
- Received \$552.3 million in SFSF funds on June 15, 2009.
- Were notified of the ED and GS allocations on September 16, 2009.

DPI implemented procedures for the allocation of SFSF for the 2009-10 fiscal year. To receive their fiscal year 2009-10 SFSF allocations, all school districts filed an application form which was due April 16, 2010. The form contained an authorized signature attesting to the assurances in the form. Included in the application form was a detail of the expenditures by account code, description and amount. A final claim was then submitted by all districts to DPI by May 24, 2010. The final claim form reflected any changes the district made regarding the use of the funds from the original application. All applications and claims were reviewed by DPI staff and procedures were established to assist in the review. A sample of 15 districts was selected based on risk criteria determined by the DPI school finance auditors. The 15 districts provided supporting documentation for the expenditures they claimed for reimbursement. All 15 districts provided the documentation prior to the June 21 payment of the funds. All districts then filed a survey online with DPI by June 23rd reporting the FTE and vendor information directly funded. Districts were provided with various resources during the process of filing the application, claim and survey.

Finding No. 2 Recommendations

We recommend that the Assistant Secretary for Elementary and Secondary Education in coordination with the Assistant Secretary for the Office of Special Education and Rehabilitative Services require the Wisconsin Governor's Office and DPI to instruct MPS to:

- 2.1 Enforce MPS's current policies and procedures for obtaining semiannual certifications, approving journal entries, and loaning computer equipment.
- 2.2 Ensure that MPS updates and implements procedures to ensure proper segregation of accounts payable duties and require that IT passwords be changed periodically.

Response to Finding #2.1

The Wisconsin Department of Public Instruction concurs with this recommendation.

- MPS has agreed to enforce its policies and procedures concerning approval of its journal entries.
 - MPS has agreed that the semiannual certification of staff being charged to federal grants will be completed twice a year. The semiannual certification will not be predated. Every semiannual certification will be signed and dated by the staff or their immediate supervisor.
 - MPS has informed the Wisconsin Department of Public Instruction that it has reviewed and revised its policies and procedures relative to loaning computer equipment consistent with this recommendation.
-

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DPI Response to OIG Draft Report ED-OIG/A02K0009, February 2011

DPI will confirm the implementation of these recommendations with MPS and their independent auditor.

Response to Finding #2.2

MPS has informed the Wisconsin Department of Public Instruction that it will update its policies and procedures to ensure the proper segregation of accounts payable duties is documented and communicated to employees.

MPS has recently acquired a new password management system that will allow for the mandatory changing of passwords. The software has been installed and tested. Implementation will occur throughout the month of March 2011 by employee collective bargaining units.

DPI will confirm the implementation of these recommendations with MPS and their independent auditor.

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