



**INTEROFFICE MEMORANDUM**

**DATE:** June 9, 2017

**TO:** Members of the Board of School Directors

**FROM:** Paul Geib *P. Geib*

**RE:** Audit #2017-063 - Internal Control Review of Payments – Department of Recreation and Community Services

**C:** Dr. Darienne Driver  
Dr. Jacqueline Mann  
Ms. Gina Spang  
Mr. Wendell Willis  
Ms. Lynn Greb  
Mr. Gerald Pace  
Ms. LaWanda Baldwin  
Mr. Matthew Chason  
Mr. Michael Trueblood  
Mr. Michael Lieske

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Please see the attached report on our assessment of the internal controls over payments processed by the Department of Recreation and Community Services contracts with vendors.

Please note that Recreation management requested Audit Services review these controls. Our review focused on determining if Federal, State, MPS and contract requirements were being followed prior to issuance of payments.

While Recreation has made many improvements to their control environment, the attached report identifies areas of improvement. Through this review and collaboration between Audit Services and Recreation the report demonstrates that Recreation embraced this approach and added many controls. Audit will follow-up with Recreation in the future and conduct a full audit to ensure controls are working as intended.

We appreciate the cooperation and assistance we received during this process. If you have any questions regarding this report or would like this to be placed on a committee agenda, please contact our office at x58314.

Attachment

**Internal Control Review of Payments  
Department of Recreation and Community Services**

**Audit: 2017-063**

**June 2017**



**MILWAUKEE**  
**PUBLIC SCHOOLS**

**Office of Board Governance-Audit Services**

**INTERNAL CONTROL REVIEW OF PAYMENTS  
DEPARTMENT OF RECREATION AND COMMUNITY SERVICES**

**AUDIT: 2017-063**

**JUNE 2017**

**MILWAUKEE PUBLIC SCHOOLS  
BOARD OF SCHOOL DIRECTORS**

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**Director Office of Board Governance**  
Jacqueline M. Mann, Ph.D.

**Audit Team**  
Paul Geib - Performance Audit Manager  
Michael Lieske - Performance Auditor

## **Background**

While conducting testing for an audit in 2015, Audit Services identified several concerns related to expenses that were being paid by MPS for Department of Recreation and Community Services (Recreation) contracts. We met with Recreation management at that time to review the concerns and offer suggestions for improvement and provided time for them to implement stronger controls. Recreation management followed up to request this review. In late 2016, Audit met with Recreation and began our review of payments to determine where corrections and improvements were implemented.

## **Scope and Objective**

Our review included all payments approved from 1/1/16 through 9/30/16 by Recreation, including Board Funds, Pass-Thru, Grants and other funding. We designed our review items using specifics from Office of Management and Budget (OMB), the specific contract requirements, Administrative Policy 3.09 and the MPS School Accounting Manual. We did not test bidding, vendor selection, Board reporting and approvals, encumbrances, budget and items tested for Baker Tilly Single audit work.

Our objective was to determine if contract payments made by Recreation followed contract requirements and any other applicable requirements of the OMB, MPS or other identified requirements. This report is not considered an audit under Generally Accepted Auditing Standards (GAGAS); however, we believe the evidence obtained provides a reasonable basis for our findings and conclusions.

## **Conclusion**

Through collaborative efforts between Audit Services and Recreation, our review has resulted in Recreation implementing or being in the process of implementing many new policies and procedures in an effort to address these control concerns. In addition, Recreation added a Financial Planning and Budget Analyst in July 2016 who is working on many of these items and replaces the contractor who had previously reviewed cost reports. Some items Recreation is currently implementing or developing include:

Concern/Recommendation	Status as of 5.19.17
1. Updating the Behind-the-Wheel contract language to reflect the per-pupil cost.	Recreation requested this change with Procurement and is waiting for the update to be made.
2. Creating a check list for Recreation supervisors to use while reviewing and approving invoices for payment, prior to submission to the Office of Finance for payment.	Checklist is complete and will be rolled out to MPS Recreation Administrators on 5.23.17
3. Monitoring process for the City of Milwaukee "Living Wage" requirement.	This has been addressed. Recreation is reviewing payroll records in cost claims to ensure employee pay rates meet living wage requirements.
4. Creating a Cost Claim guidebook for all vendors to disseminate understanding of contractual requirements for reimbursement of expenses.	This will be completed in time for distribution of Summer 2017 contracts.
<p>5. Implementing a thorough review process of submitted claims (invoices), including:</p> <ul style="list-style-type: none"> <li>a. Ensuring proper support and explanations for every expense submitted</li> <li>b. Only expenses related to vendors' employees with favorable background checks on file with Recreation are being reimbursed</li> <li>c. Recreation follow-up with the vendors when the invoices are not submitted in accordance with the contract; and</li> <li>d. Ensuring Recreation reimburses for allowable expenses that are in line with the contract, grant, OMB or MPS requirements, such as those in the School Accounting Manual (SAM).</li> </ul>	<ul style="list-style-type: none"> <li>a. This process is in place.</li> <li>b. This process is currently being reviewed in conjunction with the Department of Human Resources to ensure that the procedure going forward complies with District policy.</li> <li>c. Emails are sent to the vendor indicating what, if any, issues were uncovered and what is not being reimbursed in the claim along with an indication of what is needed to make the expense allowable. The vendor is given the opportunity to follow up with adequate documentation the following month. If unable to do so, the claim is denied.</li> <li>d. Reimbursement guidelines vary by funding source, however Recreation is monitoring the Community Learning Center reimbursements according to the Milwaukee Public Schools School Accounting Manual (SAM) and has also incorporated many of the Title I guidelines as part of the Every Student Succeeds Act (ESSA). Wisconsin Shares funds allow agencies more flexibility, however, the Recreation Department is working with the agencies to keep costs aligned with the contract and associated program.</li> </ul>

While many improvements have been or will be implemented, our review disclosed that internal controls related to those payments analyzed are inadequate.

Observations which follow identify consistent errors throughout the Recreation payment process. These five examples were selected to demonstrate the contract requirement (noted in *italics*) and what actually occurred.

1. *Provider will submit a "monthly cost report" by the 15th of each month for reimbursement.* In this sample, the invoice should have been received by MPS by 12/15/15, instead of on/after 2/4/16, a minimum of 51 calendar days past the due date.

**Response:** This claim was submitted by the Boys & Girls Clubs of Greater Milwaukee who typically submit Cost Reports 60-90 days after the due date. Recreation is working with the Boys & Girls Clubs to find an acceptable contract modification they can adhere to.

2. *All purchases must include written descriptions of the purpose of the expenditure...Any purchase that does not include a description will not be approved for reimbursement.* In this sample, \$8,846.36 (55%) did not contain explanations; but, all expenses were paid by MPS.

**Response:** The Recreation Department intends to resolve this issue by clearly articulating what is needed and allowed with vendors. Unallowable purchases are denied. Samples of properly documented receipts will be included in the Cost Claim Guidebook and via Lead Agency trainings conducted by the Recreation Department.

3. *Provider will maintain adequate source records, including, but not limited to, invoices, payroll records, time sheets and receipts for up to three years after the termination of the agreement.* When the vendor was asked for support for this review for food purchases, including ready-to-eat food purchases made at 7:28 p.m., for a list of students who received bus tickets or an inventory record of those tickets totaling \$4,987.50 on this invoice, for a listing of the 22 individuals who attended a production of Dream Girls, no support could be provided by the vendor. The request was made approximately one year after the expense reimbursement took place, or within the three year window of record retention per contract terms.

**Response:** There was a change in administration for the Contractor and as a result, the paperwork could not be located to answer the Auditor's questions. Keeping records for 3 years is a requirement stated in the Community Learning Center contract. The Recreation Department will send a reminder at the end of the year to each agency reminding them to maintain their records in a file that is easily accessible upon request.

The Cost Claim Guidebook will explicitly indicate the requirement to submit a roster to document ticket use.

4. *Provider will spend all funds received under this agreement in accordance with the authorized cost categories.* Among the categories for budget line items are General Services, Program Supplies and Materials, and Administrative Cost to name a few. The contract Appendix G provides descriptions of what should be recorded to each category. The production of Dream Girls was recorded as Program Supplies and Materials but should have been recorded as General Services because Appendix G states event and activity admission fees should be classified as General. Further, a dollar amount was recorded as Administrative Cost, with no explanation provided as to how the

amount was determined either with the original submission or with multiple requests for the support for this review.

**Response:** Agencies are being notified via email when a cost claim is miscoded and the adjustment is made. Information concerning cost category coding is included in contract appendices and will also be included in the Cost Claim Guidebook.

5. *Provider will adhere to the City of Milwaukee's 'Living Wage Requirement' as set forth in City of Milwaukee Code of Ordinances. And, a criminal information background check is required for all persons, including volunteers.* For these respective invoices, copies of payroll documents are provided with each invoice for all Boys and Girls Clubs submissions as a requirement to demonstrate actual expenditures for which they are being reimbursed. As such, all payroll related records are present with each monthly invoice. In this sample, there were multiple individuals being paid below the Living Wage Requirement.

**Response:** This has been corrected. Agencies were allowed two months to adjust employee pay rates to the Living Wage Requirement. Reimbursement claims were reduced if a vendor did not comply within the two month window. If adjustments were made, vendors were allowed to resubmit their claim.

Further, MPS Recreation was not validating the employees on the payroll to records of successful background checks.

**Response:** This process is currently being reviewed in conjunction with the Department of Human Resources to ensure that the procedure going forward complies with District policy.

The following observations, which may not be specific to contract language, are representative of best practices of contract management.

1. MPS Board Item support states 85 students will participate with a specific vendor's class (African American Children's Theatre), as well as stating that 60 students will be in that same class. No student counts were submitted with invoices to demonstrate attendance.

**Response:** Submission of student counts with invoices is not a term of the Arts & Humanities Partnership contract. However, the Recreation Department is currently reviewing procedures to ensure the Scope of Service included in the program applications closely mirrors actual services provided.

2. For Milwaukee Children's Choir, the Board item states after school choir for grades 3-5 at two schools. It also states 264 students in grades K-8. Audit asked for a student list and was provided one showing 37 students in K-5<sup>th</sup>, 6 students in 6<sup>th</sup>-8<sup>th</sup> and 5 students in 9<sup>th</sup>-12<sup>th</sup>, for a total of 48 students, leaving 216 projected student participants unaccounted for, with no review or questioning of costs by Recreation.

**Response:** Submission of student counts with invoices is not a term of the Arts & Humanities Partnership contract. However, the Recreation Department is currently reviewing procedures to ensure the Scope of Service included in the program applications closely mirrors actual services provided.

3. Artists Working in Education expense submission state "reimbursement" for \$600 with no further explanation given.

**Response:** The new procedure will not allow this. Every reimbursement will include an explanation and appropriate documentation.

4. There are instances of expenses MPS does not allow for MPS employees or students that are detailed in the School Accounting Manual. Some of the disallowed purchases at MPS are being allowed for vendors and are being reimbursed by MPS, including purchases of gift cards and food for employee staff meetings. Recreation should consider following MPS requirements with vendor relationships.

**Response:** OMB Circular A21 states: an allowable cost must be reasonable, allocable, and consistently treated (like costs must be treated the same in like circumstances, as either direct or F&A costs). If a cost cannot meet the above criteria, it is unallowable, no matter what it is for. The Recreation Department will use the Cost Claim Guidebook to communicate guidelines for agencies to follow that will provide them the ability to run the program and align them with best practices. These guidelines will be created using the SAM, OMB Circular, and the Title I guidelines provided by the district.

5. As with several vendors in this review, often times the full wage for an individual in administration or perhaps an invoice is not fully charged to the MPS contract. For example, Artists Working in Education's support showed an employee was paid \$38.50 but MPS was charged \$16.50. A Print-N-Press invoice was for \$709 but \$300 was charged to MPS. In these instances where a partial charge was submitted to MPS for reimbursement, an explanation was not present to describe how the portion submitted to MPS was determined. As such, the appropriateness could not be validated.

**Response:** Many times agencies will purchase items for MPS and non-MPS programs on a single receipt. The requested reimbursement includes only the amount that is used for MPS programs. The Recreation Department is working with the agencies to improve explanations on the receipts and cost claims to ensure clear delineation of which costs are for the MPS program.

6. An independent contractor had been in place at least since 2009. Our review identified several instances where their review allowed unsupported payments to be processed. The most recent contract, ending 10/31/16, was specifically for reviewing Arts and Humanities cost reports on a monthly basis for allowable cost compliance, report accuracy and sufficient funds. As this review notes, there are numerous instances where sufficient documentation was not present to support the reimbursement; however, the contractor submitted them for payment and MPS made the payment.

**Response:** The contract expired March 31, 2017. The Recreation Department acquired its own Financial Planning and Budget Analyst who is now reviewing all reports. This individual is also in the process of obtaining certification as a Certified Public Financial Officer (CPFO) with the Government Financial Officers Association (GFOA).



7. The Drive USA contract states that the vendor will be paid \$265 per hour per student. However, the intent was to pay the vendor \$265 per student for the full behind the wheel program.

**Response:** This was a contract misprint and was addressed by the Driver's Education Coordinator shortly after the contract was signed. When the audit information arose, Recreation was notified the change was not made. A follow up with MPS Procurement indicated that the change hadn't been processed yet.

Further, at the onset of the review, Recreation was unaware of the billing process and/or was not requesting rosters of students to reconcile to the invoicing.

**Response:** Recreation Department creates rosters of Driver Education participants via its online registration system. The procedures associated with this process will be included with all future invoices.

### **Conclusion**

Given the recent implementation of many controls and the current development of other controls, Audit Services will allow adequate time for these new controls to be implemented and will schedule an audit in the next 12-18 months from the date of issuance of this report.