COUNTY OF MILWAUKEE

Milwaukee, Wisconsin

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

As of and for the Year Ended December 31, 2017

COUNTY OF MILWAUKEE, WISCONSIN

TABLE OF CONTENTS

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

BAKER TILLY

To the Board of Supervisors
of the County of Milwaukee, Wisconsin

In planning and performing our audit of the financial statements of the County of Milwaukee, Wisconsin (the "County") as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United State of America, we considered the County's 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be 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.

The County's written responses to the matters 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 the responses; however we have evaluated management's responses in accordance with Section A.1. of the Guidelines Regarding Resolution of Audits approved by the Finance and Audit Committee.

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

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
July 31, 2018

OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.

b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:

   > Identify types of potential misstatements.
   > Consider factors that affect the risks of material misstatement.
   > Design tests of controls, when applicable, and substantive procedures.

   We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, our report will 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 and other auditors address the significant risks of material noncompliance, whether due to fraud or error, through our detailed audit procedures.

e. Other auditors 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. They 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. They will use such knowledge to:

   > Identify types of potential noncompliance.
   > Consider factors that affect the risks of material noncompliance.
   > Design tests of controls, when applicable, and other audit procedures.

Our audit and the work performed by other auditors 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*.

The other auditors 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 and the report of other auditors 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, other auditors are concerned with matters that, either individually or in the aggregate, could be material to the entity's federal and state awards. The responsibility of the other auditors is to plan and perform the audit to obtain reasonable assurance that material noncompliance, whether caused by error or fraud, is detected.

g. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

h. In connection with our audit, we intend to place reliance on the audit of the financial statements of the Milwaukee County War Memorial Inc. and the Marcus Center for the Performing Arts, component units of the County of Milwaukee, as of December 31, 2017 and June 30, 2017 and for the period then ended completed by the component auditors Wipfli, LLP and Schenck SC, respectively. All necessary conditions have been met to allow us to make reference to the component auditors.

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 Board of Supervisors 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?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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

a. The County'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.

With regard to the timing of our audit, here is some general information. All work is coordinated and scheduled with the concurrence of management and staff. If necessary, we may do preliminary financial audit work during the months of October-December, and sometimes early January. Our final financial fieldwork is scheduled during the months of April – July 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 management. This is typically 4-8 weeks after final fieldwork, but may vary depending on a number of factors. The other auditors typically perform the single audit fieldwork concurrent with the timing noted above for the financial audit. After single audit fieldwork, the other auditors wrap up the single audit procedures at their office and then issue drafts of their report for management's review and approval.

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.

While we work with management and staff in reviewing the financial data and the financial statements, our responsibility is to report to the Board of Supervisors. If you have any questions or comments concerning our audit, please contact your engagement partner, John A. Knepel, at 414.777.5359 or email at John.Knepel@bakertilly.com, the engagement senior manager, Steven J. Henke, at 414.777.5342 or email at Steven.Henke@bakertilly.com or the engagement senior manager, Paul Frantz at 414.777.5506 or email at Paul.Frantz@bakertilly.com. 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

COUNTY-WIDE MATTERS

ERP Implementation Process

With the County currently implementing an ERP system, we noted that there is a risk that "bad" data (data that may be unnecessary, duplicate, erroneous, or incorrect) may be unknowingly extracted and loaded into the new application without sufficient end user participation in requirements definition, validation and / or testing conducted by the County. Without a clearly defined data management plan, unauthorized users that exist within the production environment can cause data integrity issues, such as duplicate data.

To ensure that the County implements the ERP system without data integrity issues, the County should ensure that there is a defined team, including business representatives, responsible for data quality identification and resolution. In addition, there should be a defined process in place for reviewing cleansed data imported into the production environment, made by individuals not directly responsible for the data uploading process.

IMSD Response

IMSD has hired a Data Architect contractor to build the framework for data management within the County. IMSD will be requesting to create a Data Architect FTE position within IMSD as well as supporting FTE roles. The Enterprise Data Services group is being created from these roles within IMSD to address master data management. This defined team will work with business representatives to ensure data quality identification and resolution, and creating defined processes for reviewing cleansed data. The data review process will be handled by individuals not directly responsible for the data uploading.

OFFICE OF THE COMPTROLLER

Trust and Agency Accounts
(Repeated comment since 2016 report)

During 2016, the responsibility of monitoring the County's Trust and Agency accounts was shifted to the Audit Services Division. Year-end procedures generally involve certifying and reconciling the balances reported by each department to the amounts reported in the general ledger. During 2017, we were unable to determine if the department level reconciliations of the balances to the amounts reported in the general ledger were completed as no documentation of reconciliations or certifications was able to be provided. We recommend that the Audit Services Division create procedures to be able to obtain the required certifications and validate the reasonableness of the amounts recorded in the general ledger and follow-up on any discrepancies in a timely manner.

> ***Office of the Comptroller – Audit Services Response***
>
> Procedures associated with the certification aspect of the trust and agency account review process have been developed and documentation is in the process of being finalized. While certification of account balances have been completed for nearly all accounts, the information has not yet been compiled and forwarded to Baker Tilly.
>
> Procedures for reconciling the accounts will be developed, documented and implemented in 2018. Further, once the review of accounts for 2017 is completed, the results will be communicated to the County Board.

Vacation Accrual

During our review of compensated absences, it was noted that an incorrect rate was used to calculate the vacation accrual for twenty-three employees. We recommend the Office of the Comptroller ensure appropriate rates are used to calculate the year-end accrual.

> ***Office of the Comptroller Response***
>
> The Office of the Comptroller will review its process for obtaining pay rates for purposes of determining vacation accrual, so the accrual is properly determined.

BEHAVIORAL HEALTH DIVISION

Patient Receivable Balance
(Repeat comment since 2016 report)

During our 2016 audit, we identified the County's Behavioral Health Division did not have a process in place to reconcile a detailed listing of patient receivable balance to the general ledger. During our 2017 audit, it was noted that a process was put in place to reconcile a detailed listing of patient receivable balance to the general ledger, however, the reconciliation resulted in an unexplained variance between the patient receivable detail and the amount reported in the general ledger. Ideally, at the end of each accounting period the receivable balance reported in the general ledger should be reconciled to a detailed, aged list of individual billings and any identified variances should be resolved. This detail list should be reviewed with further collection procedures or write-offs made as appropriate. At a minimum, we recommend that a detailed patient receivable list be reconciled as of year-end to the general ledger and that identified variances be investigated and resolved in a timely manner.

Behavioral Health Division Response

The Behavioral Health Division's current process is to record billing, collections and corrections on individual patient accounts. The patient receivable account detail is then reconciled to the general ledger every 6 months.

Historically, the variance has not been recorded in the general ledger. Rather, it is used in the trend calculation of the monthly write-off percentage. Starting this year, the process will be updated to record the trend variance at year-end in account 0130. Thus, bringing into balance the patient receivable account detail with the general ledger.

Patient Receivable Detail

During our testing of individual patient receivable balances, three of thirty-two receivable balances selected for testing were found to contain errors. We recommend that the County evaluate and review the procedures related to patient receivable transactions to ensure the activity is reported at the appropriate amount.

Behavioral Health Division Response

The Behavioral Health Division already has a process for identifying and reviewing "outlier" claims that may be erroneous. The process includes reports that are generated and reviewed on a monthly and quarterly basis. Baker Tilly's testing of the 2017 patient receivable balances noted additional opportunities for identifying erroneous claims in programs that had not been included in the claims review process. These enhancements have been incorporated and management is now confident that adequate internal controls are in place to identify and resolve problematic claims that involve unusual duration or possible double billing.

INFORMATION MANAGEMENT SERVICES DIVISION ("IMSD")

IT Assessment Scope

In support of the Milwaukee County financial statement audit, Baker Tilly must gain an understanding of the financial systems and the IT control processes that support each of the below applications. This is completed to allow the financial statement audit team to adjust work based on the level of IT risk related to significant processes affecting financial reporting. The assessment is based on 15 IT general controls grounded on the COBIT framework, ISO standards, and IT Infrastructure Library (ITIL) best practices. Baker Tilly identified the following in scope financial systems:

- Advantage
- SCRIPTS
- Ceridian
- V3
- Advantage Reporting Database

In addition to the in scope systems, Baker Tilly is required to gain an understanding of the Milwaukee County IT network infrastructure and controls that support the security of the IT environment.

SOC Report Review Process

V3, Ceridian, Advantage and SCRIPTS application owners do not formally review identified exceptions or map user control considerations from their respective Service Organization Control (SOC) reports on an annual basis. These reports are collected, however, no formal review is conducted. Therefore, management is not evaluating their internal control requirements relative to material service providers and is not making sure that these entities are not introducing control risk to the County.

We recommend that application owners collaborate with IMSD to develop a SOC report review program that helps support system control environment strength. The program should include and detail the following:

- Functional Responsibilities for managing the various vendors
- The process for reviewing the SOC reports
- Assessing the impact of identified control deficiencies and user control consideration

Upon completion of a SOC report review, management should document their acceptance of risk or include a detailed corrective action plan.

IMSD Response

Advantage is a third-party application hosted on Mainframe by First National Technology Systems (FNTS) – subcontractor of IBM. SCRIPTS is an in-house application hosted by OneNeck. V3 is a third-party application hosted by Vitech. Dayforce and HR/ Payroll are third-party applications hosted by Ceridian. IMSD will develop a SOC report review program for these applications. Upon annual review, IMSD will meet with the application owner's management to review any identified risks and then document the application owner's acceptance of such risk or include a detailed corrective action plan created by the application owner. Estimated completion date for creation of the SOC report review program – Q4 2018.

Benefit Payments
(Repeated comment since 2010 report)

During the audit of benefit payments, it was noted that several retiree benefit payments were being calculated incorrectly due to incorrect pay periods (for example, FAS calculation included incorrect number of payrolls in a 27 pay period year), incorrect COLA calculations, manual calculation errors (hard keying improper number inputs) or incorrect service factors. The engagement team brought these variances to the attention of management. One payee in particular has COLA variances each year in the V3 system and a manual calculation will need to be calculated each year.

Through communications with various Plan staff members, it has been expressed to Baker Tilly that the Plan's staff will conduct a multi-layer review of each and every new benefit calculation. We continue to recommend that the Plan monitor every facet of the benefit calculations, including but not limited to, factor rates, service credits, final average salaries, and the accuracy of both monthly and backDROP calculations. The engagement team will continue to work with the Plan's staff to monitor the progression of this implementation.

Employees' Retirement System Response

Retirement Plan Services has added a new position that is currently in the recruiting process, for a Senior Compliance Specialist. This position will be responsible for procedures documentation, policy research, calculation review / audit and reporting. This will be another layer of review, monitoring, and compliance related to calculations and procedures.

Batch Processing Errors

While testing mandatory withdrawals as a part of benefit testing, it was noted a large percentage of source documents (enrollment forms, withdrawal authorization forms, etc.) were not included within the scanned section of V3. After discussing the situation with management and Plan personnel, it was discovered several batches of scanned documents were not correctly uploaded to the V3 system due to errors within the batches.

It is recommended that a review of scanned batches for rejected (un-uploaded) batches occur on a regular basis to ensure all data that should be transferred to V3 has made it into the system as originally scheduled.

Employees' Retirement System Response

Batches will be checked on a weekly / daily basis by Systems. There are multiple reasons why a scan batch can error out. For example, the scanner does not read the top sheet correctly, the user does not chose the correct top sheet for the scan, or the user mismatches two different top sheets in one scan batch. Now that there are two systems personnel, the scan batches are checked and audited on a regular basis. The process of the Service Center spot checking scans is not currently in practice, but is being assessed by Retirement Plan Services as to how to best implement.

Document Retention

While testing mandatory withdrawals as part of benefit testing and participant testing, it was noted several supporting documents were not readily available (enrollment forms, signed calculation sheets, withdrawal authorization forms, etc.). It was also noted one benefit calculation did not have FAS payroll information available in the V3 system. Under this situation, the calculation was recalculated during the audit using the information on the calculation sheet since supporting documentation was not available.

Crucial documentation used in all facets of benefits, service credits or demographic data should be retained and accessible to help support the departments calculation at a given date.

Employees' Retirement System Response

In the past, purging of files occurred – that is not the practice within Retirement Plan Services, and has not been for several years. Retirement Plan Services makes every attempt to recover documentation from other departments, such as Human Resources or Payroll, to assist with retaining critical documentation that has been lost due to past practices.

PRIOR YEAR COMMENTS ADDRESSED IN THE CURRENT YEAR

The following comments were included in last year's report and were addressed during 2017:

1. County-wide Matters
   a. Petty Cash
   b. Tips
2. Office of the Comptroller – Vacation Accrual
3. Information Management Services Department
   a. Network Security
   b. Disaster Recovery
4. Employee Retirement System
   a. Participant Contributions
   b. Fixed Assets
   c. Mandatory Withdrawal
   d. Internal Controls and Fraud Risk Discussions
5. New Accounting and Reporting Requirements
   a. GASB 74
   b. GASB 80
   c. GASB 81

DEPARTMENTAL CONTROLS

As part of our annual audit process, we focus our efforts on the primary accounting systems, internal controls, and procedures used by the County. This is in keeping with our goal to provide an audit opinion which states that the financial statements of the County are correct in all material respects.

In some cases, the primary system of accounting procedures and controls of the County is supported by smaller systems which are decentralized, and reside within a department or location. In many cases, those systems are as simple as handling cash collections and remitting those collections to the county treasurer. In other cases, the department may send invoices or statements of amounts due, and track collections of those amounts in a standalone accounts receivable system.

Generally, the more centralized a function is, the easier it is to design and implement accounting controls that provide some level of checks and balances. That is because you are able to divide certain tasks over the people available to achieve some segregation of duties. For those tasks that are decentralized, it may be more difficult to provide for proper segregation of duties. Therefore, fewer people involved in most or all aspects of a transaction, you lose the ability to rely on the controls to achieve the safeguarding of assets and reliability of financial records.

As auditors, we are required to communicate with you on a variety of topics. Since there is now more emphasis on internal controls and management's responsibilities, we believe it is appropriate to make sure that you are informed about the possibility that a lack of segregation of duties that may occur at departments or locations that handle cash or do miscellaneous billing. The County has a number of decentralized departments and / or locations that may fit this situation.

As auditors, we are required to focus on the financial statements at a highly summarized level and our audit procedures support our opinion on those financial statements. While we do evaluate internal controls at some decentralized departments each year, departments or locations that handle relatively smaller amounts of money are not the primary focus of our audit. It is not unusual to have a lack of segregation of duties within some of these decentralized departments and, therefore, the opportunity for loss is higher there than in centralized functions that have more controls.

Because management is responsible for designing and implementing controls and procedures to detect and prevent fraud, we believe that is important for us to communicate this information to you. We have no knowledge of any fraud that has occurred or is suspected to have occurred within the County departments. However, your role as the governing body is to assess your risk areas and determine that the appropriate level of controls and procedures are in place. As always, the costs of controls and staffing must be weighed against the perceived benefits of safeguarding your assets.

Without adding staff or splitting up the duties, your own day-to-day contact and knowledge of the operation are also important mitigating factors.

Office of the Comptroller Response

The Office of the Comptroller will continue to send an annual communication to department heads and elected administrators, reminding them of their responsibilities for the design and implementation of controls and procedures to detect and prevent fraud. This communication includes a comment in respect to the need for consideration of segregation of duties within decentralized functions.

NEW ACCOUNTING AND REPORTING REQUIREMENTS

GASB No. 75: Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

The Governmental Accounting Standards Board has issued GASB No. 75 which establishes accounting and financial reporting requirements for postemployment benefits other than pensions that are provided to the employees of state and local government employers. The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This Statement replaces Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. In the scope of this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet certain criteria.

The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017.

Office of the Comptroller Response

The Office of the Comptroller will work with Retirement Plan Services and Transit to review the requirements of these statements and they will be reflected in the financial reports for the year ending December 31, 2018.

GASB No. 82: Pension Issues

The Governmental Accounting Standards Board has issued GASB No. 82 which addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements with Retirement Plan Services and Transit and they will be reflected in the December 31, 2018 financial statements.

GASB No. 83: Certain Asset Retirement Obligations

The Governmental Accounting Standards Board has issued GASB No. 83 which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2019 financial statements.

GASB No. 84: Fiduciary Activities

The Governmental Accounting Standards Board has issued GASB No. 84 which is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2019 financial statements.

GASB No. 85: Omnibus 2017

The Governmental Accounting Standards Board has issued GASB No. 85 which addresses practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2018 financial statements.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 86: Certain Debt Extinguishment Issues

The Governmental Accounting Standards Board has issued GASB No. 86 which is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2018 financial statements.

GASB No. 87: Leases

The Governmental Accounting Standards Board has issued GASB No. 87 which is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2020 financial statements.

GASB No. 88: Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

The Governmental Accounting Standards Board has issued GASB No. 88 which is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This statement defines debt for purposes of disclosure in the noted to the financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This statement also clarifies which liabilities governments should include when disclosing information related to debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2019 financial statements.

GASB No. 89: Accounting for Interest Cost Incurred Before the End of a Construction Period

The Governmental Accounting Standards Board has issued GASB No. 89 which is to (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This statement also establishes accounting requirements for interest cost incurred before the end of a construction period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2020 financial statements.

INFORMATIONAL POINTS

Updated Standards for Other Postemployment Benefits

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB).

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.

This Statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

The County provides OPEB benefits in the form of health care benefits for retirees and will be required to adopt Statement No. 75 for the year ending December 31, 2018. Some action items to consider during this year of implementation are:

- Coordinating key items with your actuary, including:
  - Measurement date and valuation date
  - Actuarial assumptions
  - Timing and availability of their report
- Assessing your responsibility for:
  - Allocating costs among departments or funds
  - Tracking of benefit payments for active employees separate from retirees
  - Accuracy of census data to be provided to the actuary
  - Assumptions used in the actuarial valuation
  - Accounting and financial reporting changes

The accounting and reporting of OPEB has become more complex with the implementation of GASB Statement No. 75. We are available to answer any questions on how this new accounting standard will affect the County financial statements starting next year.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2018 financial statements.

BAKER TILLY VIRCHOW KRAUSE, LLP'S COMMENTS ON MANAGEMENT RESPONSES

We have evaluated and believe that management's responses included herein are in accordance with Section A.1. of the Guidelines Regarding Resolution of Audits approved by the Finance and Audit Committee.