MILWAUKEE COUNTY

Milwaukee, Wisconsin

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2015

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

Baker Tilly Virchow Krause, LLP
777 E Wisconsin Ave, 32nd Floor
Milwaukee, WI 53202-5313
tel 414 777 5500
fax 414 777 5555
bakertilly.com

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, 2015, 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 of Milwaukee'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.

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 29, 2016

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 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., the Marcus Center for the Performing Arts, and, the Milwaukee County Research Park Corporation, component units of the County of Milwaukee, as of December 31, 2015 and for the year then ended completed by the component auditors Wipfli, LLP, Schenck SC, and Reilly, Penner & Benton, LLP, 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?

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 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

OFFICE OF THE COMPTROLLER

Retainages

During our review of accounts payable, we noted several year-end contract payments had retainages identified on the invoices; however, the retainages were not recorded in the County's accounting records. We recommend that all year-end contract payments be reviewed for retainages and that the appropriate retainages are recorded.

Office of the Comptroller Response

Our procedure is to review year-end contract payments over a threshold of materiality. Several retainages were inadvertently missed for accrual (each under the threshold of materiality) due to the related project invoices posting to the correct fiscal year, negating the need for an accrual. We will clarify our review procedure to include retainages as appropriate.

HUMAN RESOURCES DEPARTMENT

New Hire Policy
(Repeated comment since 2013 report)

During our testing of internal control procedures related to new hires, we noted that the County has established and implemented a standard new hire policy county-wide; however, it was noted that certain departmental policies / procedures have deviated from the County's standard policy. We reviewed and tested compliance with the general policies for multiple departments and found that not all new hire forms (ETCR Reports) are being approved by the appropriate department personnel prior the effective start date of the employee.

We recommend that the County communicate the importance of compliance with the County's standard new hire policy, particularly the process and procedures related to appropriate documentation and approval.

Human Resources Department Response

On June 8, 2015, Human Resources rolled out a centralized New Employee Orientation (NEO) program, to ensure that all new hires were on-boarded in a consistent manner that's in compliance with all Federal, State and County standards. The problems this audit identified occurred prior to the rollout of this new process.

Launching this new program included the elimination of the old ETCR form (and the multiple versions that were in use), plus the implementation of a new Personnel Action Form (PAF). Implementing the new PAF and the accompanying process ensured a consistent approach, with the appropriate approvals prior to the hire date of the employee. This change has also led to significantly improved record retention, because the PAF is utilized through the electronic database OnBase, rather than the former manual filing process. We believe that this new approach, in conjunction with our new Applicant Tracking System, will address the vast majority of any departmental inconsistencies with respect to the hiring process. While this change required training and follow up with hiring managers for a few months following implementation, we are now confident that this audit item has been fully addressed with the new NEO program and onboarding process. This audit finding will be communicated with appropriate internal HR staff to emphasize the necessity of timely new hire approvals at the department level.

INFORMATION MANAGEMENT SERVICES DIVISION ("IMSD")

Physical Security
(Repeated comment since 2012 report)

As we were able to gain an understanding of the physical access controls in place, it was noted that there is no formal process in place for reviewing all individuals with access to the three data centers that house Milwaukee County IT assets. We recommend that a data center access review for each of the three data centers should be performed on an annual basis. The individual conducting the review should confirm each user's access with the user's supervisor. The supervisor should validate that the user's access is still necessary, as well as provide an explanation as to why access is appropriate. Any inappropriate access should be removed timely. Evidence of this annual review should be retained for audit purposes. Additionally, we recommend that IMSD should create formal data center policy, as well as procedures that include the following key information:

Policy

1. A list of the data centers that house Milwaukee County assets with a description of what they house.

Procedures

1. The process for requesting, modifying, and revoking access to the data centers.
2. The process for reviewing access to the data centers on an annual basis.

Lastly, Milwaukee County and the City of Milwaukee should create and maintain a services contract that clearly defines roles and responsibilities between the two parties, as it pertains to data center management and colocation services.

IMSD Response

IMSD does have a practice in place for physical access to the Datacenters for G2A and MER, but is lacking a formal procedure.

This practice will be formally documented as a procedure by November of 2016. The procedure will be in the form of a controlled document that will be reviewed by the county's IMSD leadership team (CDO, CTO, Director of Governance/Strategy and Director of PMO) and approved by the CIO. Personnel responsible for granting and controlling access will be required to acknowledge review and understanding of the procedure. The procedure shall include a mechanism for auditing the procedure and logs associated with access.

The City of Milwaukee's data center where the mainframe is located, along with backup, is controlled by the City of Milwaukee. Milwaukee County is working toward eliminating use of the City's mainframe by 2018 to eliminate the risk of not having a formal procedure for access to this DC.

For reference:

The formal practice of gaining access to the data centers is as follows. Employees fill out a form for management of IMSD to signoff granting requests. From there the form is given to the Sheriff's department to officially do a background check of the individual that is requesting the access. Once that employee has passed the background check, they are given a pass for the specific areas required.

Physical Security (continued)

When someone enters the data centers with the proper authority, they must show ID and sign into the log book that is in place at the entrance. This log is audited on a bi-monthly basis by IMSD data center management. All visitors must be accompanied by an ***authorized employee*** *into either of the rooms.*

Modifying access, happens in a similar manner to the sign off from management and sent to facilities to restrict or gain additional access. Revoking access would be also in this manner, and when someone is terminated or leaves they would get their access revoked upon departure.

Patch Management

During our review of the patch management process for Ceridian and Vitech, we concluded that although changes are provided by the respective service provider, there is no formal process in place for testing or approving patches and updates prior to release into the production environment. We recommend that IMSD security and governance develop a formal testing and release management process for patches and updates made to key financial applications. Additionally, we recommend that evidence of testing and release approval be retained for audit purposes.

IMSD Response

IMSD will document a security and governance procedure to include formal testing and a release management process for patches and updates made to key financial applications. This will include formal documentation providing evidence of testing and release approval by the appropriate personnel.

A process for obtaining and recording patch information for hosted applications such as Vitech and Ceridian will be included this procedure. This includes a recommendation of the level of testing, and formal documentation required, based on the impact of the patch being installed. The procedure will be in the form of a controlled document that will be reviewed by the county's IMSD leadership team (CDO, CTO, Director of Governance/Strategy and Directory of PMO) and approved by the CIO. This procedure will be developed by February, 2017.

Terminated Employees

During our demographic testing related to terminated and retired participants of the Plan, we noted one instance where the service credits of a terminated employee were calculated incorrectly, due to the employee having service credits from a member organization with reciprocity that were not accounted for. While the service credits missed were not significant and the employee was not vested with Milwaukee County, errors with reciprocity have the potential to be significant.

It is important that the Plan's staff members review employees' information for accuracy upon termination to ensure accurate and appropriate information is provided to that employee regarding their involvement in the plan.

Employees' Retirement System Response

Retirement Plan Services continues to review processes and update procedures for better accuracy and efficiencies. Milwaukee County has implemented a new employee orientation program which all newly hired employees are required to attend. A Retirement Analyst presents retirement information and assists new employees with the completion of retirement forms. We get the information during this session if a new employee was previously a member of one of the other public entities. There is no way to determine this information without the employee self-reporting.

In addition, reciprocity procedures have been reviewed and a tracking and review process has been implemented to ensure that all eligible member benefits available through employment with other Wisconsin public sector entities are taken into consideration when calculating a member's benefit. New documentation and training has been developed and has been utilized. All Retirement Analysts will be cross-trained on the process.

Participant Contributions

During our testing of the accuracy of the employee contribution amounts, we noted several participants did not have contributions based on wages that management had indicated were "pensionable" earnings, due to differences between Retirement Plan Services and the payroll department's definition of "pensionable" earnings.

It is important that the Plan's staff members work with departments that support their processes to ensure that the Plan follows internal and external requirements.

Employees' Retirement System Response

The question on pensionable earnings was due to the Shift. We have determined that this should not be included in pensionable earnings. To exclude it will require a payroll system change in the way the information comes over to V3. We are exploring options to modify the reports. Completion is anticipated by December 31, 2016.

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 options being utilized, incorrect COLA calculations and incorrect retirement dates used. The engagement team brought these variances to the attention of management who subsequently adjusted the monthly payment amounts.

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 continues to monitor all situations where a calculation correction is needed and has updated calculation training and processing checklists. The expanded training of the Retirement Analysts emphasizes the peer review process and the required strict enforcement of the process. All benefit calculations require peer review. The Retirement Analyst completes a calculation and hands it off to a peer for review. If deficiencies are noted, the file is returned to the initial Retirement Analyst for correction. After correction, the file is again reviewed by a peer and then forwarded to the department manager for review. An additional review is completed by the fiscal office. If the file is clean, the fiscal office approves the payment amount and enters the distribution schedule into the system. The final review and validation of the calculation and disbursement schedule is done by the System Administrator.

PRIOR YEAR COMMENTS ADDRESSED IN THE CURRENT YEAR

The following comments were included in last year's report and were addressed during 2015:

1. County-Wide Matters
   a. Cash Reconciliations
   b. Miscellaneous Cash Accounts
2. Office of the Comptroller
   a. Wire Transfer Approval
   b. Expedite Closing and Financial Reporting Process
   c. Children's Long-Term Support (CLTS) Claims
   d. Duplication of Capital Asset Addition
3. Department of Administrative Services – Procurement Division – Travel Card Purchases
4. Information Management Services Department
   a. Change Management
   b. Resource Alignment
   c. Access Violation Monitoring
   d. User Account Management – Advantage, Active Directory and Scripts
   e. User Account Management – ViTech (V3) and Ceridian
   f. User Account Access Review – ViTech (V3)
   g. User Account Access Review – Ceridian
5. New Accounting and Reporting Requirements
   a. GASB No. 68
   b. GASB No. 71

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. 72: Fair Value Measurement and Application

The Governmental Accounting Standards Board has issued GASB No. 72 which is to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statement for periods beginning after June 15, 2015.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2016 financial statements.

GASB 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

The Governmental Accounting Standards Board has issued GASB No. 73 which establishes accounting and financial reporting requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. The Statement also amends certain provisions of Statements No. 67 and No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement that are for pensions that are not within the scope of Statement No.68 are effective for financial statements for fiscal years beginning after June 15, 2016. The requirements of this Statement for pension plans that are in the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015.

Office of the Comptroller Response

The Office of the Comptroller will work with the ERS and Transit to review the requirements of these statements and they will be reflected in the financial reports for the required fiscal years.

GASB No. 74: Financial Reporting for Postemployment Benefit Plans Other than Pension Plans

The Governmental Accounting Standards Board has issued GASB No. 74 which establishes financial reporting requirements for postemployment benefit plans other than pension plans. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The scope of this Statement includes OPEB plans, both defined benefit and defined contribution, administered through trusts that meet certain criteria.

The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016.

Office of the Comptroller Response

The Office of the Comptroller will work with ERS and Transit to review the requirements of these statements and they will be reflected in the financial reports for the year ending December 31, 2017.

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 the ERS 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. 76: The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments

The Governmental Accounting Standards Board has issued GASB No. 76 which establishes the hierarchy of generally accepted accounting principles (GAAP) for state and local governments. The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 and should be applied retroactively.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2016 financial statements.

GASB No. 77: Tax Abatement Disclosures

The Governmental Accounting Standards Board has issued GASB No. 77 which establishes accounting and financial reporting requirements for tax abatements. Financial statement users need information about certain limitations on a government's ability to raise resources. This includes limitations on revenue-raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens.

Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. Generally, for tax abatement agreements, a reporting government should disclose the following information:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2016 financial statements.

GASB No. 78: Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans

The Governmental Accounting Standards Board has issued GASB No. 78 which addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2016 financial statements.

GASB No. 79: Certain External Investment Pools and Pool Participants

The Governmental Accounting Standards Board has issued GASB No. 79 which establishes accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2016 financial statements.

GASB No. 80: Blending Requirements for Certain Component Units

The Governmental Accounting Standards Board has issued GASB No. 80 which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity,* as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

> ***Office of the Comptroller Response***
>
> The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2017 financial statements.

GASB No. 81: Irrevocable Split–Interest Agreements

The Governmental Accounting Standards Board has issued GASB No. 81 which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016.

> ***Office of the Comptroller Response***
>
> The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2017 financial statements.

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 ERS and Transit and they will be reflected in the December 31, 2018 financial statements.

INFORMATIONAL POINTS

Interpreting Your Financial Statements Post-GASB No. 68

Now that your financial statements reflect the new pension requirements of GASB Statement No. 68, what has changed and how do you interpret this new information? In summary, GASB Statement No. 68 required the County as a participant in the Employees' Retirement System of the County of Milwaukee (ERS) and the Transport Employees' Pension Plan to report their proportionate share of the plan's activity and net pension liability.

As of the December 31, 2014 measurement date used for your 2015 financial statements, ERS reported total resources available to provide pension benefits of $1.823 billion. They also reported a total liability for pensions of $2.223 billion. This resulted in a net pension liability of $400 million. There are also pension-related deferred outflows or inflows due to timing of contributions and smoothing of activity.

As of the December 31, 2014 measurement date used for your 2015 financial statements, Transport Employees' Pension Plan reported total resources available to provide pension benefits of $452 million. They also reported a total liability for pensions of $530 million. This resulted in a net pension liability of $78 million. There are also pension-related deferred outflows or inflows due to timing of contributions and smoothing of activity.

Pension activity under GASB Statement No. 68 is reported in the government-wide financial statements and proprietary fund financial statements, similar to long-term debt. The implementation of this new standard does not affect how you fund or pay for your pension contributions to the ERS or the Transport Employees' Pension Plan.

The accounting and reporting of pensions has become more complex with the implementation of GASB Statement No. 68. We are available to answer any questions on how this new accounting standard affects your financial statements.

Office of the Comptroller Response

The Office of the Comptroller, in conjunction with ERS and Transit, will keep a focus on this area with continued training on GASB 68 requirements and also by conferring with Baker Tilly.

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

We have reviewed the management responses included herein. We believe management generally has been responsive to the recommendations. For a majority of the recommendations, management has agreed with our comments and has initiated actions to address the comments.