

COUNTY OF MILWAUKEE

Milwaukee, Wisconsin

**COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT**

As of and for the Year Ended December 31, 2018

COUNTY OF MILWAUKEE, WISCONSIN

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

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, 2018, 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, 2019

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.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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, 2018 and June 30, 2018 and for the period then ended completed by the component auditors Wipfli, LLP and Schenck SC (now CliftonLarsenAllen, 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?

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 manager, Michelle Walter at 414.777.5576 or email at Michelle.Walter@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

To address data integrity issues, IMSD has a data management plan that includes automated extraction, end user validation, new ERP system data load, followed by data validation and business approvals for reviewing cleansed data imported into the production system. If there is an issue with the data extracted at any point of this process, the data integrity process starts back from the beginning. This ensures that only good data goes into the production system.

Further, County has a defined data conversion team consisting of IMSD employees, contractors and ERP business users. Only authorized County business units have access to grant access rights to users in the production environment.

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 2018, 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 have been developed for carrying out the certification process. However, implementation has been rescheduled to the 3rd/4th quarter of 2019.

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. Again, during our 2018 audit, a similar unexplained variance between the patient receivable detail and the amount reported in the general ledger was noted. 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

It is currently the Behavioral Health Division's process to reconcile patient receivable detail to the general ledger at year end. This was completed for 2018. However, it was noted during the audit that some of the patient receivables in the detail provided appeared to be written off prior to year-end. After an investigation, we found that an automated write-off process used for certain receivable categories had been back-dating the "adjustment date" of when the receivable was written-off. For example, if the automated write-off process was completed in April 2019 to close out November 2018, the adjustment date would have been hard coded to "11/30/2018" rather than the date the process was run in April of 2019. This gives the appearance that certain were receivables included in the year-end balance detail inappropriately.

We are working with our IT team to alter the report to no longer back-date the "adjustment date" for this process. We are confident that this issue will be resolved for the FY 2019 close.

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 based on industry leading practices including: the COBIT framework, ISO standards, and IT Infrastructure Library (ITIL) process models.

Baker Tilly identified the following applications in scope related to the financial statement audit:

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

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.

The intention of the following observation is to focus on IT general control improvement opportunities and will not comment on the many robust areas of the County’s systems and procedures.

INFORMATION MANAGEMENT SERVICES DIVISION (“IMSD”) (cont.)

SOC Report Review Process

Although a governing SOC report review process is in the process of being developed and formalized by IMSD and Milwaukee County business teams, the Ceridian 3rd party service vendor Service Organizational Control (SOC) report was not formally reviewed on an annual basis for identified exceptions and to map user control considerations. In addition, a review for V3 (Vitech) was completed for the service entity’s environment within the fiscal year 2018, however, the SOC report reviewed was outdated and did not provide efficient coverage within the audit period. 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
- Identified vendors that must go through a SOC review annually
- The process for reviewing the SOC reports
- Assessing the impact of identified control deficiencies and user control considerations in relation to the County’s internal environment

Upon completion of a SOC report review, management should document their acceptance of risk or include a detailed corrective action plan. Action plan progress should be monitored by management periodically.

IMSD and Business Response

Milwaukee County SOC Report review process has been developed and communicated to the concerned business units within scope of this assessment. This review process also includes the above recommendations from Baker Tilly.

EMPLOYEES' RETIREMENT SYSTEM

Benefit Payments

(Repeated comment since 2010 report)

During the audit of benefit payments, it was noted that one particular benefit payment was being calculated utilizing the prior year's option factor chart. Prior to our testing, management was already aware of the improper option factor and the file was under investigation. In addition, one retiree selected had an improper cost of living adjustment applied (overpayment) from one year to the next. Management was informed of this during our fieldwork and was going to remediate.

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, cost of living adjustments 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

The Milwaukee County Employees' Retirement System 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.

Benefit Payments – Lump Sum

During the audit of lump sum payments, it was noted that variances between the hardcopy of the ERS calculation sheet and the V3 software existed with two of the samples. The engagement team brought these variances to the attention of management. Management noted the payments were made based on the hardcopy ERS calculation sheet as they are the correct amounts and V3 was just never properly updated.

It is recommended management enter any adjustments into the V3 system on a timely basis to reduce the risks of inaccurate information being reflected in the V3 system.

Employees' Retirement System Response

It is the practice of the Milwaukee County Employees' Retirement System to perform all adjustments on an ongoing basis as they are identified. Typically, it is the Operations team – the Retirement Analysts – that identify most adjustments but other staff, including the Fiscal Unit, can identify such variances and submit to the Retirement Information Technology and Systems Management team for adjustment. We have also implemented additional peer review at the calculation level with Retirement Analysts performing "true peer" review of all benefit calculations.

EMPLOYEES' RETIREMENT SYSTEM (cont.)

Financial Reporting Risks

As a result of entity level control walkthroughs, it was noted that the ERS team meets the Friday following Pension Board meetings to discuss updates, processes, and other issues (including fraud). At this time, minutes are not maintained for these meetings.

It is recommended detailed minutes or meeting notes/agendas are maintained to help support ERS activity, deliberations held and action items to substantiate matters discussed at the meeting.

Employees' Retirement System Response

In alignment with the pension governance audit implementation process, ERS will be migrating Pension Board materials, including meeting minutes and documents to a digital platform. The process for keeping the entire ERS team apprised of Pension Board actions will change accordingly to include an email summary of the Pension Board's activities the Friday following the Pension Board meeting, and notification and links to Pension Board materials on the digital platform (once implemented). The monthly team meeting now takes place the second Friday of the month and the summary of Pension Board activities – including the Audit and Investment Committees – will be presented at the meeting as well.

The monthly ERS team meeting has a routine and standard agenda that includes status updates from all eight functional areas. Furthermore, the ERS senior leadership team has a weekly meeting as well as a weekly status update on key initiatives. The four ERS business units – Administration, Fiscal, Service Center, Systems – have regular ongoing meetings, as do the specific Service Center functions – Clerical Associates and Retirement Analysts.

This process, specifically including items such as deliberations held and action items resulting from the various Retirement Plan Services team meetings, will be formally documented as a critical component of planning and conducting ERS operations.

PRIOR YEAR COMMENTS ADDRESSED IN THE CURRENT YEAR

The following comments were included in last year's report and were addressed during 2018:

1. Office of the Comptroller
 - a. Vacation Accrual
2. Behavioral Health Division
 - a. Patient Receivable Detail
3. Employee Retirement System
 - a. Batch Processing Errors
 - b. Document Retention
4. New Accounting and Reporting Requirements
 - a. GASB 75
 - b. GASB 82
 - c. GASB 85
 - d. GASB 86

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. 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.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

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 notes 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.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

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.

GASB No. 90: Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61

The Governmental Accounting Standards Board has issued GASB No. 90 which is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The statement defines a majority equity interest and specifies the financial reporting for a majority equity interest in a legally separate organization.

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.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 91: Conduit Debt Obligations

The Governmental Accounting Standards Board has issued GASB No. 91 which is to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The standard achieves these objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2021 financial statements.

INFORMATIONAL POINTS

Interpreting Your Financial Statements Post-GASB No. 75

During the current year, the County implemented GASB Statement No. 75, which required employers providing other post-employment benefits (OPEBs) to report the OPEB liability in their government-wide and proprietary fund financial statements. This standard is intended to parallel GASB Statements No. 68 and 73 for pensions, which together provide for more overall consistency and comprehensive guidance for pensions and other post-employment benefits.

Previously, the County only reported an OPEB liability (or asset) to the extent that annual contributions fell short of (or exceeded) the actuarially estimated annual OPEB cost. In addition, the actuarially estimated annual OPEB cost included a mechanism to recognize the initial OPEB liability at the implementation of GASB Statement No. 45 over an extended period of years. Under the new standard the County is required to report the total OPEB liability as determined by the actuary. There are also OPEB-related deferred outflows and/or inflows due to the timing of benefit payments and to allow for smoothing of activity.

As of the December 31, 2017 measurement date used for your government-wide financial statements, the actuarially determined OPEB liabilities for your County-wide retiree healthcare and life insurance plans and the Transit System healthcare and life insurance plans are \$1.35 billion and \$285 million, respectively, and these amounts are reported as noncurrent liabilities.

OPEB activity under GASB Statement No. 75 is reported in the government-wide financial statements and the proprietary fund financial statements, similar to long-term debt. The implementation of this new standard does not require changes to how you pay for or fund your OPEB benefits.

The accounting and reporting for other post-employment benefits has become more complex with the implementation of GASB Statement No. 75. We are available to answer questions on how this new accounting standard affects your financial statements.

Office of the Comptroller Response

The Office of the Comptroller appreciates the guidance offered by Baker Tilly and the firm's availability to confer on this topic.

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.