

County of Milwaukee

Communication to Those Charged With
Governance and Management

December 31, 2022

County of Milwaukee, Wisconsin

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To the Board of Supervisors of
the County of Milwaukee

During our audit of the financial statements of the County of Milwaukee, Wisconsin for the year ended December 31, 2022, we became aware of a limited number of matters that are opportunities for strengthening internal control and operating efficiency. The following comments are related to procedural matters which should be considered by County management. As always, you should consider the costs of making improvements to the expected benefits. A separate report dated July 31, 2023 contains our required communications on internal control matters. This letter does not affect our report dated July 31, 2023, on the financial statements of the County of Milwaukee.

We will review the status of these comments during our next audit engagement. We have discussed many of these comments and suggestions with various County personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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.

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 US, LLP

Milwaukee, Wisconsin
July 31, 2023

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS AND
INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL WEAKNESSES OR
SIGNIFICANT DEFICIENCIES**

INFORMATION MANAGEMENT SERVICES DIVISION (IMSD)

IT Assessment Scope

In support of the Milwaukee County (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 12 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:

- Infor
- Dayforce
- V10
- Scripts
- Synthesis
- LandNav

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 recommendations 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.

In this regard, Baker Tilly offered one recommendation to the Information Management Services Division (IMSD) as an opportunity to improve IT controls. IMSD provided a response to the recommendations. However, to avoid disclosing potential County IT vulnerabilities or system architecture publicly, we have agreed with IMSD management and the Comptroller's Office to exclude these items from this report.

EMPLOYEES' RETIREMENT SYSTEM

Participant Data (Repeated comment since 2019 report)

During the testing of active and newly terminated participants, there were four participants tested that did not have an enrollment form on file. Through communication with a Plan staff member, new employees are encouraged to complete an enrollment form for the plan during new hire orientation. Baker Tilly notes that the risk of missing enrollment forms is partially mitigated since membership into the ERS is mandatory and automatic for all full-time employees (with a few exceptions).

Recommendation:

It is recommended that management obtain enrollment forms for each newly active participant.

Employees' Retirement System Response

Pension Board Rule 204 requires that membership into ERS be mandatory and automatic. All full-time employees, with the exception of a few classes of employees, such as County Board and Commission Members, Interns, and Temporary or Seasonal employees, automatically become members when employed with Milwaukee County. Since enrollment into the pension is automatic and mandatory, ERS members cannot opt out of the contribution requirement or membership. New employees during new hire orientation with HR are encouraged to complete an enrollment form for ERS, but there are instances where members fail to return these forms to RPS. We did not receive enrollment forms for the members in question.

A new employee orientation Administrative Manual of Operating Procedure ("AMOP") for is currently being drafted that explains to new ERS members the enrollment process and stresses the importance of reviewing and completing the enrollment and beneficiary designation forms. AMOPs are procedures and policies that guide the operation of Milwaukee County government and are intended as resources for staff, our citizens, and those who work with County government.

A workflow within V10 is also being implemented to automatically send reminder letters to members who have not returned enrollment and beneficiary designation forms.

Benefit Payments (Repeated comment since 2010 report)

During the audit of the Cost of Living Adjustment (COLA) roll forward, it was noted that one individual's monthly benefit amount was properly recalculated in a previous year; however, the COLA amount was not adjusted accordingly. Through communication with a Plan staff member, they will calculate the overpayment to correct this member's retirement benefit.

During the audit of backdrop payments, it was noted that V10 was unable to calculate the correct values for the backdrop amounts paid to multiple participants; however, the amounts paid to these participants agreed to the hard-copy calculation sheet. The Plan's actuary was consulted to aid in calculating these figures as V10 was unable to properly do so. For one participant, their backdrop amount agreed to V10 but did not agree to the hard-copy calculation sheet. Additionally, the pension status of three participants in V10 was not finalized; however, the backdrop amount paid to the participants appears to be accurate using the "pending" inputs in V10.

EMPLOYEES' RETIREMENT SYSTEM (cont.)

Recommendation:

Baker Tilly recommends that original documentation be retained to support benefit payment amounts and calculations, review V10 to ensure data is properly being calculated in the system and that the system can handle complex calculations, and management review inputs after they are entered into V10 and the 1099-R register to reduce the risks of inaccurate information being reflected in the V10 system and the 1099-R register.

Employees' Retirement System Response

With regard to the member who received an incorrect COLA, their benefit was required to be recalculated in a previous year due to a retroactive raise the member received and an error discovered in their original calculation. While their monthly benefit was corrected, the COLA the member continued to receive was based on their original amount prior to the correction. We will correct the member's benefit, calculate the overpayment, and attempt to recoup the overpayment from the affected member. Each month in 2023, we are reviewing benefit calculations and post-retirement increases in the new V10 system to ensure retirees are being paid correctly. This additional "internal audit" is being completed for the first year following implementation of the upgraded system to ensure it is properly paying members and applying post-retirement increases.

With regard to the audit of BackDROP payment amounts, RPS is continuing to fine-tune the programming within the V10 pension system for benefit calculations. In the vast majority of cases, member benefits are accurately calculated by the V10 system. There are some types of calculations the system cannot complete due to the complex nature of a member's employment history. Because of this, the excel calculation sheet is used to verify every payment calculation. As we continue fine-tuning the calculator, even fewer calculations will need to be performed in the Excel calculation spreadsheet though there will likely always be a very small percentage of calculations that must be done manually (for example, if an individual was in three different unions or had numerous breaks in service in the years that are in their Final Average Salary calculations). Programming the V10 system to accommodate all unique situations would be incredibly expensive and management has determined that continuing to fine-tune the V10 system calculator while using the excel calculation spreadsheet for verification is sufficient to ensure properly paid benefits.

With regard to the three members with pending applications, these members also had completed retirement applications confirming the approval of their retirement benefits. During the review of their retirement calculation, it was determined that these members needed edits to their employment data which required an additional application to be generated for these members. While no payments are generated from the applications in pending status, the pending applications will be canceled for these members for clarity.

PRIOR YEAR COMMENTS ADDRESSED IN THE CURRENT YEAR

The following comments were included in last year's report and were addressed during 2022:

1. New Accounting and Reporting Requirements
 - a. GASB 87
 - b. GASB 97

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. 94: Public-Private and Public-Public Partnerships and Availability Payment Arrangements

The Governmental Accounting Standards Board has issued GASB No. 94 to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). The Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs).⁸⁸

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2023 financial statements.

GASB No. 96: Subscription-Based Information Technology Arrangements

The Governmental Accounting Standards Board has issued GASB No. 96 which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for governments. The Statement defines SBITAs, establishes a right to use subscription asset and corresponding subscription liability, provides the capitalization criteria and requires various note disclosures.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2023 financial statements.

GASB No. 99: Omnibus 2022

The Governmental Accounting Standards Board has issued GASB No. 99 which is to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The requirements of this Statement are effective for reporting periods will be effective at various dates.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the financial statements required by the GASB 99 Statement.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 100: Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62

The Governmental Accounting Standards Board has issued GASB No. 100 which is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability.

The requirements of this Statement are effective for reporting periods beginning January 1, 2024.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2024 financial statements.

GASB No. 101: Compensated Absences

The Governmental Accounting Standards Board has issued GASB No. 101 which is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures.

The requirements of this Statement are effective for reporting periods beginning January 1, 2024.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2024 financial statements.

BAKER TILLY, LLP'S COMMENTS ON MANAGEMENT RESPONSES

We have received the management responses included herein. We believe management generally has been responsive to the recommendations. Management has agreed with our comments and has initiated actions to address to comments.