

COUNTY OF MILWAUKEE

Milwaukee, Wisconsin

COMMUNICATION TO THOSE CHARGED WITH
GOVERNANCE AND MANAGEMENT

December 31, 2021

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, 2021, we became aware of several 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 29, 2022 contains our required communications on internal control matters. This letter does not affect our report dated July 29, 2022, 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; 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 US, LLP

Milwaukee, Wisconsin
July 29, 2022

**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 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:

- Infor
- SCRIPTS
- V3
- Advantage Reporting Database
- SciQuest
- Synthesis
- Dayforce
- GCS

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 two recommendations 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, it was noted that service credits earned by a newly terminated participant differed between the amount reported in the V3 system and the calculated amount of credits. Through communication with a Plan staff member, the differences resulted because the service credits were not reviewed or corrected by the Plan's staff. Additionally, there were five participants tested that did not have an enrollment form on file.

During our audit, it was noted Milwaukee County changed payroll service providers effective January 1, 2021. Additionally, the Plan is undergoing a major update to its pension administration software, from version V3 to V10, which is expected to be implemented in 2022.

It is recommended that management review the service credits being used to calculate benefit payments and that completed enrollment forms to support eligibility dates are maintained in files. Appropriate data-conversion procedures should be performed on the payroll software and the pension administration software to ensure that information is properly converted from the former system to the new system. Access levels should be reviewed and properly assigned to the new systems.

Employees' Retirement System Response

This was a benefit member for a withdrawal of pension contributions. When pension contributions are refunded to a member, service credits are not used to calculate that benefit payment. Because service credits are not used to calculate a contribution withdrawal and service is negated when pension contributions are withdrawn, service credit is not verified for pension contribution withdrawals. When calculating the amount to be withdrawn, only contributions and interest are verified because no other factors contribute to the amount of the withdrawal.

EMPLOYEES' RETIREMENT SYSTEM (cont.)

**Benefit Payments
(Repeated comment since 2010 report)**

During the audit of annuity benefit payments, it was noted that one participant was assigned a retirement date during 2021 on the 1099-R listing. The participant's actual retirement date per V3 was in 1995, and it was determined that the 2021 retirement date was caused by a separate payment this participant received as a beneficiary of her family member who passed away during 2021.

During the audit of backdrop payments, it was noted that V3 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 V3 was unable to properly do so. Additionally, the pension status of two participants in V3 was not finalized; however, the backdrop amount paid to the participants appears to be accurate using the "pending" inputs in V3.

During our audit, it was noted that effective January 1, 2021, a key Plan staff member no longer has read-only access to Milwaukee County's new payroll system. As an internal procedure, this staff member utilized the former payroll software to run payroll reports as a way to corroborate the payroll-related information reported in V3 as a way to ensure accurate payments to participants.

Baker Tilly recommends that original documentation be retained to support benefit payment amounts and calculations, review V3 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 V3 and the 1099-R register to reduce the risks of inaccurate information being reflected in the V3 system and the 1099-R register. As noted in the participant data comment above, data conversion procedures should be performed to ensure all historical payroll information has been transferred to the new payroll system and is accurate in V3. If all historical information will be available, we recommend considering access levels be properly assigned to the new payroll system.

EMPLOYEES' RETIREMENT SYSTEM (cont.)

Employees' Retirement System Response

With regard to the annuity payment effective dates on the 1099-R listing, we have added additional review during the preparation of future 1099-R files to ensure the correct retirement date has been listed.

With regard to the audit of backDROP payments, RPS is continuing the programming within the V3 pension system for the 4/1/2013 backdrop modification. Thus, when the member chooses a backdrop date that is after 4/1/2013, RPS uses the calculation sheet to correctly calculate the backDROP amount.

Finally, RPS has requested "read only" access to the new Payroll system that was effective on 12/27/2020. At this time access has not been granted. This issue has come up within the Pension Board Actuarial, Audit & Risk Committee. It is noted that not having access to source data from the payroll system would prevent verification of employment data when members are commencing their retirement benefits, or withdrawing their contributions upon termination, resulting in an increased risk of errors. To mitigate the risk of errors, RPS is reviewing data as it is fed into the V3 pension system from the payroll system. Additionally, when questions arise on payroll records from 2021 or later, RPS sends the questions to the payroll team who provide documentation or an explanation.

PRIOR YEAR COMMENTS ADDRESSED IN THE CURRENT YEAR

The following comments were included in last year's report and were addressed during 2021:

1. Circuit Court
 - a. Undeposited Check
2. New Accounting and Reporting Requirements
 - a. GASB 89

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

As a result of the COVID-19 pandemic, the Governmental Accounting Standards Board moved forward with allowing delays in the implementation of some new standards upon issuance of GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*, which became effective immediately upon issuance in May 2020. The Statements listed below through Statement No. 93 had their required effective dates postponed by one year with the issuance of Statement No.95, with the exception of Statement No. 87 which was postponed by one and half years. The effective dates noted below and on the following pages reflect the applicable revised implementation dates as set forth by Statement No. 95.

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 fiscal years beginning after June 15, 2021.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2022 financial statements.

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, 2021.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2022 financial statements.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 92: *Omnibus 2020*

The Governmental Accounting Standards Board has issued GASB No. 92 which is to enhance the comparability and financial reporting and improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2022 financial statements.

GASB No. 93: *Replacement of Interbank Offered Rates*

The Governmental Accounting Standards Board has issued GASB No. 93 which is to provide guidance on accounting and financial implications that result from the replacement of an interbank offered rate (IBOR), most notably, the London Interbank Offered Rate (LIBOR).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2021 and removal of LIBOR as an appropriate benchmark interest rate for periods ending after December 31, 2021.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2022 financial statements.

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.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

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. 97: Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32

The Governmental Accounting Standards Board has issued GASB No. 97, which is (1) to provide guidance on consistency and comparability related to reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) to mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans; and (3) to enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2022 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 US, 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.