

MILWAUKEE COUNTY

Milwaukee, Wisconsin

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE
AND MANAGEMENT

As of and for the Year Ended December 31, 2012

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, 2012, in accordance with auditing standards generally accepted in the United State of America, we considered its 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. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

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.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency in the County's internal control to be a significant deficiency:

- > External financial reporting

In addition, during our audit we became aware of additional matters that are opportunities for strengthening internal control and improving operating efficiency. The following comments are related to procedural matters which can be implemented by County staff. As always, you should consider the costs of making improvements to the expected benefits. This report does not affect our report, dated July 29, 2013, on the basic financial statements of the County of Milwaukee. We have also included some comments related to policy matters for your consideration and other comments for informational purposes.

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

The status of these comments will be reviewed during the 2013 audit. We have already discussed 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 the County in implementing the recommendations.

The County of Milwaukee's written responses to the significant deficiency and other 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 report 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, 2013

SIGNIFICANT DEFICIENCY

External Financial Reporting

In theory, a properly designed system of internal control staffed with enough people with sufficient training would provide your organization with the ability to not only process and record monthly transactions, but also accurately prepare the annual financial statements in a timely manner.

With the restructuring of the Comptroller's office and various vacant positions, there is a lack of trained and knowledgeable personnel in the Department (exclusive of the Comptroller) and in other Departments that account for financial activity needed for the annual financial statements.

Based upon our audit, total assets, liabilities and equity for the government-wide and individual fund financial statements were materially correct. However, certain portions of the County's financial statements, specifically the portion of the financial statements applicable to the government-wide financial statements, related reconciliations and the general fund budgetary statement required significant changes to individual asset, liability, revenue, expenditure/expense and / or other financing sources (uses) line items to bring them into conformance with generally accepted accounting principles. These changes were not identified by the County's internal control process prior to our review of these statements.

Without adequate training, knowledge and time to prepare and review the financial statements, the risk of issuing a financial statement containing a material error increases.

The County should evaluate the need to provide additional training to staff resources, giving them the knowledge and understanding to provide timely and accurate year end financial reporting.

Office of the Comptroller Response

The Comptroller's office understands the need to meet internal control standards and provide timely financial reports for both internal and external users. The addition of the Comptroller's office, under State Statute, provided for additional review of County financial issues, and greater internal control compliance, by providing a segregation of duties between offices. To achieve these goals, the Comptroller's office must be adequately staffed. The Office of the Comptroller has recently added a Deputy Comptroller, is currently in the process of hiring for additional positions within the Central Accounting division, and is focused on providing additional educational opportunities for the current Central Accounting team. We are also working to develop and adhere to a more concise timeline for monthly, quarterly and year-end financial statement preparation and distribution.

Vacancies in accounting positions in other departments that provide key financial information needed for the annual financial statements will be identified and department management will be contacted to discuss strategies for filling the positions, as well as possible educational opportunities for their financial staff that may be in need of it.

OTHER COMMUNICATIONS WITH 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 (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, and, (b) 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:

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

- > 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 Circular A-133, 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 OMB Circular A-133 and the *State Single Audit Guidelines*, the report of other auditors will include a paragraph that states that the purpose of the report is solely to describe 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. 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, 2012 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?

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 contract is with the Board of Supervisors and 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**

COUNTY-WIDE MATTERS

Cash Reconciliations (Repeated comment since 2003 report)

During our audit of various cash account reconciliations, we noted numerous reconciling items affecting a number of County departments that were not recorded in a timely manner into the Advantage System. During its year end closing process, the County has three closing periods and the Audit Services Division completes cash reconciliations at each closing period, if necessary. The unrecorded reconciling items are given to the various County departments after each reconciliation is complete. Specifically, our review of these items in the current year noted adjustments for activity covering the entire fiscal year that were not recorded by the responsible department. We recommend that procedures be implemented to ensure that all reconciling items be recorded timely to provide the accurate financial reporting of cash on hand. In addition, we recommend that follow up discussions take place between the various departments and the Audit Services Division concerning open reconciliation items to explain the reconciliation items and ensure that these items can be addressed in a timely fashion. Lastly, we also recommend that a review be made of any material reconciling items during the year end closing process to confirm the source and accuracy of these reconciling items.

Office of the Comptroller Response

The Office of the Comptroller and the Treasurer's Office have been working on the reconciliation of major accounts for the past several years in order to clear outstanding items. These two offices will work together to develop a policy and procedure for the timely clearing of reconciling items. From 2009 – 2012, the Treasurer's office has cleared reconciling items for the major accounts of the County including payroll and accounts payable.

Internal Service Fund Deficit (Repeated comment since 2010 report)

At December 31, 2012, the Information Management Services internal service fund had a deficit net position balance of \$2.5 million. A deficit net position balance in internal service funds is not consistent with generally accepted accounting principles. We recommend that County management evaluate this fund on its appropriate classification as an internal service fund. Items to consider in this evaluation include the recent history of fund expenses exceeding fund revenues and whether it is the County's intention to recover all costs, including depreciation, through user charges.

Office of the Comptroller Response

The deficit in the Internal Service Fund is in the net investment in capital assets. The account consists of capital assets of the fund, net of general obligation bond debt used to build those assets. The Office of the Comptroller will evaluate the timing of the amortization of bonds and the depreciation of assets. Towards this end, the negative balance has decreased from the prior year by \$1.5 million and is expected to decrease again in 2013.

COUNTY-WIDE MATTERS (cont.)

**Wire Transfer Approval
(Repeated comment since 2011 report)**

During our testing of internal control procedures related to wire transfers it was noted that the procedures followed for wire transfers are inconsistent. In some instances, it was noted that transfers are being initiated before they have proper approval. We also noted that department heads are able to approve EFT forms as well as prepare them, which does not provide for a proper segregation of duties. We recommend that all wire transfers be reviewed and approved by appropriate supervisory personnel not involved with the wire transfer and that such approval be documented.

Office of the Comptroller Response

The Office of the Comptroller will work with the Treasurer's Office to review procedures related to wire transfers and modify them as necessary to strengthen internal controls and achieve desired processing consistency. The Office of the Comptroller has instituted an automated EFT process within the Advantage Financial System, which will help better control certain EFT payments.

Time Sheet Approval

Our testing of time sheet approvals noted that time sheets do not always have the required approval of the department supervisor. This situation was not isolated to any one department but appears to occur within almost every department. We have estimated that the frequency of occurrence is approximately 1.2%. Unapproved time sheets increases the risk that employees are not properly compensated for the correct number of hours worked. In addition, the documentation of time sheet approval by authorized personnel which is required by County policy is lacking in these instances. It should be noted that subsequent to year end the Comptroller's Office updated and enhanced the County's time sheet approval policy to address the unapproved time sheet situation. We encourage the County to monitor the enhanced procedures to ensure the time sheets are approved in accordance with established policies.

Office of the Comptroller Response

The County will monitor enhanced procedures to ensure time sheets are approved in accordance with established policies.

OFFICE OF THE COMPTROLLER

**Expedite Closing and Financial Reporting Process
(Repeated comment since 1999 report)**

We noted that approximately 45 adjusting journal entries were made subsequent to April 23, 2013 relating to the 2012 financial statements, which is consistent the number of entries that were made during the 2011 audit. We recommend the County continue to investigate ways to reduce the number of adjusting entries made long after the end of the fiscal year as a few of these entries significantly impacted the amount of the County's 2012 budget surplus calculation. The enforcement of individual department's compliance with the year-end closing calendar may help to improve this process.

Office of the Comptroller Response

The Comptroller's Office understands the need to meet internal control standards and provide timely financial reports for both internal and external users. The addition of the Comptroller's Office, under State Statute, provided for additional review of County financial issues, and greater internal control compliance, by providing a segregation of duties between offices. To achieve these goals, the Comptroller's Office must be adequately staffed. The Office of the Comptroller has recently added a Deputy Comptroller, is currently in the process of hiring for additional positions within the Central Accounting division, and is focused on providing additional educational opportunities for the current Central Accounting team. We are also working to develop and adhere to a more concise timeline for monthly, quarterly and year-end financial statement preparation and distribution.

**Construction in Progress
(Repeated comment since 2010 report)**

During our review of capital assets, we noted that the County does not maintain a current and complete listing of open projects and the corresponding costs to support the construction in progress balance. As part of the year end closing process, the balance reported as construction in progress is calculated based on the expenditures incurred and the funding source of the project. We recommend that the County initiate a process to track and monitor open projects and the related costs.

Office of the Comptroller Response

The Office of the Comptroller continues to work with the Department of Administrative Services and the Department of Transportation to develop an automated process that will indicate which projects are substantially complete and generate a report for the outside auditors. The first report is due in September of 2013.

OFFICE OF THE COMPTROLLER (cont.)

**Trust and Agency Funds
(Repeated comments since 2011 report)**

Trust and agency funds are to be reviewed once every two years in accordance with County policy. The most recent review completed was for the year 2007. Based on our inquiries, it was noted that a review as of December 31, 2009 had been started but the review has not been finalized. We recommend that the 2009 review be finalized and that the County has a process in place to ensure that these trust and agency accounts are reviewed in accordance with County policy.

Office of the Comptroller Response

The Office of the Comptroller has finalized its review of trust and agency funds as of December 31, 2009. A process will be developed to ensure that trust and agency funds are reviewed every other year to comply with County policy.

Children's Long-Term Support (CLTS) Claims

The State of Wisconsin Department of Health Services (State) changed the handling of Children's Long Term Support (CLTS) claims processing as of April 1, 2011. These revisions included the State entering into a contract with a third party administrator (TPA) to process all provider claims instead of the Agency. For 2011 and 2012, the County was not reporting the expenditures processed by the TPA in the County's accounting records. In March 2013, the State clarified the requirements of the Agency versus the requirements of the TPA effective for the 2012 Contract, which included the requirement for the costs processed by the TPA to be included in the County's accounting records, financial statements, and schedule of expenditures of federal and state awards.

Upon learning of the additional requirements, management obtained the TPA expenditure amounts for 2012, which were determined not to be material to the financial statements taken as a whole. However, because of the significance of this amount, we recommend that the County work with the state to obtain the necessary reports and begin recording this activity in the County's records for 2013 and beyond.

Office of the Comptroller Response

The County will work with the State to obtain the necessary reports and will decide on the appropriateness of making financial entries.

DEPARTMENT OF ADMINISTRATIVE SERVICES – PROCUREMENT DIVISION

Purchase Card Policy (Repeated comment since 2011 report)

During our testing of internal control procedures related to purchase cards, we noted that the County has established and implemented a standard purchase card policy county-wide; however, it was noted that several 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 there are inconsistencies in the applications of the policies. Exceptions to the policies noted during our testing included the following:

- > No documentation of review by supervisory personnel.
- > No documentation of approval for purchases requiring preauthorization.
- > Terminated employee card not cancelled.
- > Unable to locate employee authorization forms.
- > Unable to locate signed employee agreements/training verification forms.

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

DAS – Procurement Division's Response

Exceptions related departmental documentation and compliance; DAS Procurement issued an updated Purchasing Card manual to all Card Coordinators in January 2013, with specific sections highlighted related to supervisory review and documentation requirements. DAS will begin an annual issuance of current manual/policy to cardholders and card coordinators.

Exceptions related to active employees, in May 2013 DAS Procurement sent a listing of cardholders with 'open' purchasing accounts to Human Resources to confirm current full time employment, this will be performed on a bi-annual basis. In addition, in August 2013 a listing of all purchasing cardholders was sent to all card coordinators, requesting review for accuracy; inclusive of employment and of their cardholder-card coordinator relationship. This will be performed on a quarterly basis moving forward.

Exceptions related to locating signed documentation, in July 2013 a full file review of all cardholders was performed in an attempt to locate and confirm possession of both an authorization form and employee agreement. Files that did not contain required documents a request has been made to employee/card coordinators to send copies or execute new documents. Under review by DAS Procurement is the possible requirements to have each cardholder execute, on an annual basis, an employee agreement.

INFORMATION MANAGEMENT SERVICES DEPARTMENT (“IMSD”)

Physical Security – Data Center

Milwaukee County does not proactively review the listing of employees that have access to the data center. We suggest that physical access to the data center be reviewed for both the common area and the separate room that houses the County's infrastructure on an annual basis. This will help ensure that only authorized employees and contractors have access to County computing infrastructure housed in the data center.

IMSD's Response

IMSD will ensure that CJS (Criminal Justice System) requirements for managing, monitoring and controlling access to the Milwaukee County Data Center are met by December 31, 2013.

Resource Alignment

Based on challenges completing our risk assessment procedures we observed that IMSD employees may not be properly aligned in terms of skill sets, job roles, and internal control responsibilities. Challenges encountered during the risk assessment included: an inconsistent understanding of internal control responsibilities and expected activities, reduced ability to provide control evidence in a timely manner, and an overall lack of responsiveness to our requests. We also noted that there is no resource is clearly identified as being ultimately responsible for the County's information security.

We suggest that Milwaukee County assess the current resource model and conduct training as required, to help ensure that roles and responsibilities of all IMSD individuals are clarified and that internal control requirements and expectations are clearly defined and communicated.

IMSD's Response

IMSD understands and has already documented the issues and challenges outlined above. As a result, a new organizational structure and accompanying job descriptions have been proposed. This proposal is currently under review by the Human Resources Division and the Department of Administrative Services. Recommended next steps in a reorganization/realignment process are forthcoming from those reviews. Note that two new positions (Manager of Security and Business Continuity and Security Analyst) are included in the proposed organization.

User Account Management

Milwaukee County does not have an effective process in place for the timely removal of user access. Through additional procedures we were able to conclude that while access to the network and key financial applications was ultimately removed for terminated employees/contractors, the current process doesn't allow for the timely removal of system access. We suggest that the current user account management process be re-evaluated and controls be put in place to help reduce the risk related to unauthorized users having access to key financial systems.

IMSD's Response

IMSD recognizes this deficiency and will be consolidating account management processes (add, delete and change) into a specific group within IMSD. Process analysis, development and management are within the scope and management of the Desktop Transformation Project that is currently underway.

EMPLOYEES' RETIREMENT SYSTEM ("ERS")

Retention of Participant Information and Forms

During our demographic testing related to active participants of the Plan, we noted seven instances where we were unable to obtain enrollment forms related to the participation date of plan participants. This lack of documentation leaves the plan sponsor exposed to the risk participants' years of service could be questioned or challenged by employees in the future. It is important that ERS staff members obtain and retain appropriate documentation for each participant. This course of action will ensure that inputs utilized to calculate future benefit payments can be substantiated if they ever came to be disputed by a beneficiary of the Plan.

Employees' Retirement System Response

New hire information comes over to the V3 system on a file feed from Central Payroll. When the file is loaded, a new member record is created in the Retirement Information System, and a workflow generating the ERS Enrollment form is created. Field Human Resource managers provide form to new member to complete, and the manager returns form to the Retirement office. When form is received from the field, it is reviewed for accurate completion by the retirement staff. If completed correctly, retirement staff closes the workflow and files the enrollment form. If the form is not received within three weeks, retirement office staff follows up with the field HR manager.

Risk Assessment

A vital part of internal control includes the means to effectively analyze potential risks within the organization. While certain functional areas, such as expense disbursements and the multi-layered review over benefit calculations, do have controls in place over them, it is our understanding that ERS does not have a formal process in place to analyze all potential risks over the ERS operations and financial statements. Such a process may allow those charged with governance to identify risks up front and establish the necessary controls to prevent a misstatement.

Through discussions with ERS Management it was determined that a formal risk policy is being drafted and will be available at the end of the third-quarter. This formal policy should include not only continuous discussions and brainstorming of potential risks to the pension plan, but also should include the documentation of steps taken to identify those risks over the pension plan as well as the actions taken to mitigate such risks.

Employees' Retirement System Response

ERS appreciates this recommendation and at completion of the assessment, a formal policy will be developed to assist in the identification, avoidance, or mitigation of potential risk factors.

EMPLOYEES' RETIREMENT SYSTEM ("ERS") (cont.)

Benefit Payments

During the audit of benefit payments, it was discovered that the V-3 system was using the incorrect benefit payment amount to calculate the COLA benefits for three participants. In each case, it appeared that the initial benefit payment had been done incorrectly which resulted in an under-payment to the Plan beneficiary. The engagement team brought these underpayments to the attention of Management who subsequently adjusted the monthly payment amounts. Furthermore, it was also noted that several beneficiaries eligible for backDROP payments received incorrect benefit payments as the V-3 system was incorrectly calculating the backDROP amounts. It is our understanding that management previously became aware of this situation and details surrounding errors in the calculation through the Internal Audit Report dated March 9 2012. This report identified that the issues stem from the way V-3 was programmed rather than V-3 not functioning as programmed.

Through communications with various ERS staff members, it has been expressed to us that the ERS staff conduct a multi-layer review of each and every new benefit calculation. Although the COLA variances as well as backDROP errors did not materially impact the financial statements, we continue to recommend that ERS 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 ERS staff to monitor the progression of this implementation.

Employees' Retirement System Response

V3 is being programmed to calculate backDROP payments correctly. All payment calculations will continue to be reviewed on three levels. The fiscal office has taken over the duties of reviewing the COLA increases to members on a monthly basis.

EMPLOYEES' RETIREMENT SYSTEM ("ERS") (cont.)

Actuarial File

As part of our audit procedures over the actuarial valuation, we are required to test the underlying data used in the valuation. We use the actuarial file that is derived from the V-3 system to perform our audit procedures over the participant data information. After receiving the initial actuarial file, it was noticed that in some cases manual updates to service credits were not made, pensionable earnings were identified but no service credit was allocated and employees deemed as active had no earnings for the Plan year. Based on communications with the third party actuary, it appears that the actuary completes a multi step process each year in order to obtain a reasonable level of comfort regarding the accuracy and completeness of the underlying demographic data. The actuary confirmed that information has to be sent in multiple files and a comparably significant amount of data reconciliation takes place between the actuary and ERS staff. While this comprehensive process appears to result in the accumulation of necessary data sufficient to meet the needs of the third party actuary, the process includes several manual steps which can increase the chance of human error.

To further satisfy our audit procedures, we selected a sample of participants, including active, newly participating, newly terminated, and newly retired. The demographic data of these people per the actuarial file was traced to supporting documentation included in the V-3 system. We also sent confirmation to the actuary to verify the final results of the participant data testing. Ultimately, we did not find any major discrepancies or multitude of discrepancies that would materially impact the valuation.

We strongly encourage ERS to improve the process of downloading and transferring the actuarial file from the V-3 system to the actuary. Further, the actuarial file(s) should be reviewed for accuracy and completeness by a person or persons on the ERS staff with a comprehensive understanding of both County benefits/operations, as well as the ultimate actuarial calculations, prior to remitting the information to the actuary. As this data is essential to the valuation performed by the actuary, complete and accurate data is vital. Improving the process will mitigate the risk of a misstated actuarial valuation.

Employees' Retirement System Response

Most of the manual updates to the actuarial file were a result of issues with the data conversion process when V3 was implemented. ERS will continue to work with the actuary and system consultants to ensure that the data is complete and accurate. ERS staff will review all exception reports on a monthly basis. The file will be thoroughly reviewed for accuracy and completeness.

ETHICS BOARD

During our testing for related parties and conflict of interest activities, we review copies of the Statement of Economic Interest form that are filed with the Ethics Board. We provide a listing of the employees we wish to review and during the course of reviewing these we asked the question of who is required to complete the Statement of Economic Interest form. There does not appear to be a definitive answer to who is required to complete a Statement of Economic Interest form. We recommend that a policy be created to specifically identify who is required to complete this form and have a process in place to ensure that the appropriate individual completes the form.

Ethics Board Response

What criteria determine who shall complete a financial disclosure form?

The current version of Chapter 9 of the Milwaukee County Code of General Ordinances, which is the Milwaukee County Ethics Code ("the Code"), was adopted on June 26, 2008 after an extensive review by a committee convened for the specific purpose of reviewing and amending the Code. The Code states, "*Each person required to file a Statement of Economic Interests ("SEI") shall file updated statements with the Ethics Board within thirty (30) days after the closing of each calendar year.*" C.G.O. 9.03 (4) (a). Other provisions require members of the Pension Board to file quarterly and provide filing deadlines for candidates for elective office, newly elected and appointed officials, and certain new employees. C.G.O. 9.02 (a) and (b), 9.03 (3), and 9.03 (4) (b).

The Code further states:

"Each department head in the service of the county shall submit to the executive director of the Ethics Board an updated list of the job titles and position numbers of those incumbents within his/her jurisdiction. He/she shall indicate on the list whom, [sic] in his/her opinion, should be required to file Statements of Economic Interests and sworn affidavits." C.G.O. 9.03 (6).

What is the basis for the determination as to who shall file an SEI form?

Section 9.04 of the Code identifies the required information that each filer should include on the SEI and the timeframe as of which the information should be up-to-date. The basis for filing the SEI is clearly stated:

"All county elected and appointed officials, candidates for elected county offices, and county employees, whose duties and responsibilities; performed for or on behalf of the county or any board or commission thereof, include the awarding or execution of contracts for the purchase of supplies, services, materials, and/or equipment; the construction of public works; and/or the sale or leasing of real estate or who may be designated by the Ethics Board, shall file Statements of Economic Interests as set forth in this section. In the case of members of boards and commissions, the Ethics Board may, in its discretion, require the filing of economic interest statements by members of boards and commission. Upon failure of any such

ETHICS BOARD (cont.)

person to file the requested statement within a period of thirty (30) days from the date requested in writing by the Ethics Board, such person shall be subject to those penalties applicable to others who fail to file such statements as required by this chapter.” C.G.O. 9.03 (1).

What is the role of the Ethics Board in making these determinations and why?

The duties of the Ethics Board (the “Board”) identified in section 9.08 of the Code indicate that:

The Ethics Board shall serve as the primary authority for interpreting the Code, for applying the Code to written requests for Advisory Opinions and Formal Opinions, for deciding the outcome of Verified Complaints, for conducting meetings and for establishing policies and procedures for internal operations except for the provisions of sec. 9.09(3) relating to the Corporation Counsel.”

The Ethics Code does not authorize the Ethics Board to make a determination as to who is required to file an SEI in the various jurisdictions of Milwaukee County. This makes sense based on the fact that the duties and responsibilities of required filers, as identified in C.G.O. 9.03 (1) identified above, are not known to the Ethics Board; cannot be identified on the basis of job title or position alone; cannot be identified on the basis of department; and may change from year to year as departmental needs change. For this reason, the Ethics Code places the responsibility of identifying required filers on the department head and on a minimum annual basis.

How does the Ethics Board review the names of required filers?

Of course, there are certain positions that the Ethics Board would likely expect to see as required filers, such as department and division heads and elected officials. Below those levels, however, the Ethics Board relies on the department listings that are requested annually and that are compared from year to year. Where names or positions change, the Ethics Board’s staff does make inquiries of the department heads to determine the reason for those changes and notifies the Board of any unusual changes not related to, for example, employee transfers, resignations, retirements, or departmental restructuring. As for the Board’s exercise of its discretionary authority to require other persons to file SEIs, the Ethics Board has not determined a need to do so at this time.

In what ways can the Ethics Board contribute to improving this internal control?

The Ethics Board is open to receiving any comments or recommendations from appointed or elected officials, employees, citizens, or vendors as to persons or positions they believe should be required SEI filers but are not currently doing so. In October 2013, the Ethics Board will begin using an online SEI filing system, which will aid in the determination and review of required files because the names of required filers will be uploaded to a public database modeled after the index created by the Wisconsin Government Accountability Board (WGAB). The names of individuals who have filed SEI forms will be readily available for public inspection. In addition, the Ethics Board will prescribe a form that can be used to submit filing recommendations, along with specific reasons for the recommendation, and will make the form publicly available on its website. The Ethics Board will communicate the availability of the form on its website, by means of its newsletters and public bulletin board, and by means of Milwaukee County’s internal and external email notification systems.

ETHICS BOARD (cont.)

With the addition of this publicly available recommendation form, the Ethics Board can review any suggestions at its regular meetings and, if after investigating the matter the Ethics Board concurs that the duties and responsibilities of the person or position fall under the filing requirements of 9.03 (1), the Ethics Board can require the person to submit an SEI form and notify the department head that the person or position should be included as a required filer on upcoming department listings, based on the most current information regarding the duties and responsibilities of the position.

Related amendments to the ordinance can be made by any person authorized to submit a resolution to amend an ordinance. However, typically, the Ethics Board does not participate in the legislative process. This also helps to avoid conflict of interest accusations regarding an independent body having authority to make a rule, review performance in regard to that rule, and then administer discipline related to failure to follow that rule.

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 are 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.

Department of Administrative Services and Office of the Comptroller Response

Milwaukee County management is aware of the importance of segregating duties within the departments. An annual communication will be sent to department heads, including elected administrators, reminding them of their responsibility for designing and implementing controls and procedures to detect and prevent fraud. In addition, the Office of the Comptroller will work with the Department of Administrative Services to periodically evaluate the procedures and controls within the departments. Plans call for a collections and billing work group to be added during the later part of 2013 in order to enhance good billing and debt management practices and ensure that adequate controls are in place. The Department of Administrative Services and the Office of the Comptroller will continue to monitor and evaluate departmental operations to minimize our risk of potential fraud.

DEPARTMENTAL CONTROLS (cont.)

In addition, vacancies in accounting positions in other departments that provide key financial information needed for monitoring our financial status will be identified and department management will be contacted to discuss strategies for filling the positions. Furthermore, educational opportunities for their financial staff that may be in need of such training will be identified.

NEW ACCOUNTING AND REPORTING REQUIREMENTS

GASB No. 61: The Financial Reporting Entity: Omnibus

As we reported to you last year, The Governmental Accounting Standards Board (GASB) has issued Statement No. 61, which changed governmental financial reporting for component units. These changes will affect your financial statements for the year ending December 31, 2013, primarily the government-wide financial statements, and possibly the fund financial statements.

Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations in which the primary government did not appoint a majority of the organization's board, but were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship now would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units; but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the criteria to be considered in determining whether the organization is to be reported as a blended or discretely presented component unit, as discussed below.

Statement No. 61 amends the criteria for reporting component units as if they are part of the primary government (that is, blending) or separately (that is, discretely) presented. Component units should now be reported as part of the primary government (blended) if they meet any of the following circumstances:

- > The governing bodies of both entities are substantially the same and there is a financial benefit or burden relationship, or management of the primary government has operational responsibility for the component unit
- > The component unit provides services entirely, or almost entirely, to or that benefit the primary government
- > The component unit's total debt outstanding is expected to be repaid entirely, or almost entirely, with resources of the primary government

The blending provisions are also amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. This means that if the component unit has multiple fund types within its report, these funds should be reported within the same fund types of the primary government; except for the component unit's general fund, which should be reported as a special revenue fund. Finally, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. Component units should be consolidated into the single column presentation with condensed combining information presented in the notes to the financial statements.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit.

We are available to discuss these changes and the impact on your financial statements.

Office of the Comptroller Response

The Office of the Comptroller will examine the requirements of this Statement to ensure the new reporting standards are implemented properly. The County will do a survey in 2013 of possible component units and have them answer a set of questions in response to the changes created by GASB 61 as it relates to component units.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 65: Items Previously Reported as Assets and Liabilities

Government Accounting Standards Board (GASB) Statement No. 65 – *Items Previously Reported as Assets and Liabilities* will result in a reclassification of some financial statement line items on the Statement of Net Position and Balance Sheet of governments. The new financial statement categories of deferred outflows of resources and deferred inflows of resources will become more commonly used upon implementation of this standard. In addition to reclassifications to these new categories, the standard will also result in a change in the accounting treatment for certain items, including debt issuance costs. This standard is effective for periods beginning after December 15, 2012, and was intended to complement Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

Some of the most significant changes of this standard that will impact many governments include:

- > Debt issuance costs previously amortized will now be expensed in the period incurred
- > Losses on refunding of debt will now be classified as a deferred outflow of resources, and consistent with the change noted previously, the formula for calculating the loss has been adjusted to exclude debt issuance costs (prospectively)
- > Regulatory credits recorded by utilities will now be recorded either as a liability or a deferred inflow of resources, depending on how the credit will be applied in the future
- > The terminology of *deferred revenue* is no longer permitted to be used. In addition, the items previously recorded as deferred revenue will need to be analyzed to determine if they now will be presented as a deferred inflow of resources or a liability
- > The major fund determination formula has been updated to include the new categories

We are available to discuss these changes and the impact on your financial statements.

Office of the Comptroller Response

The Office of the Comptroller will examine the requirements of this Statement to ensure the new reporting standards are implemented properly.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 67: Financial Reporting for Pension Plans

The Governmental Accounting Standards Board (GASB) has issued Statement No. 67 which will change the financial reporting requirements for state and local government pension plans. This statement replaces the requirements of GASB Statement Nos. 25 and 50 as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. These changes will affect your plan's financial statements for the year ending December 31, 2014.

This Statement applies specifically to pension plans in which a government's contributions to the trust used to administer a pension plan are (1) irrevocable, (2) restricted to paying pension benefits, and (3) beyond the reach of creditors.

For defined benefit pension plans, the Statement establishes standards of financial reporting for separately issued financial reports. Distinctions are made regarding the particular requirements, depending upon the type of pension plan administered, as follows:

- > Single employer pension plan – is a plan in which pensions are provided to the employees of only one employer
- > Agent multiple employer pension plan – is a plan in which plan assets are pooled for investment purposes, but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees
- > Cost-sharing multiple employer pension plan – is a plan in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan

The new standards generally carry forward the existing framework of financial reporting for defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in trust for paying retirement benefits), and a statement of changes in fiduciary net position. This Statement details the disclosure requirements for the notes to the financial statements, as well as identifies certain required supplementary information for the ten most recent fiscal years that should be included in the plan's financial statements.

The Statement specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), and contains requirements related to the actuarial cost method and certain other assumptions used in the preparation of an actuarial valuation. The Statement also establishes guidance related to the frequency of completing an actuarial valuation.

For defined contribution pension plans, the new standards generally do not change the existing reporting requirements.

We are available to further discuss these changes and the impact on your financial statements.

Office of the Comptroller Response

The Office of the Comptroller will examine the requirements of this Statement to ensure the new reporting standards are implemented properly. We will also forward this to the Employee Retirement System of Milwaukee County to make sure they are aware of the changes in financial reporting that are required by this new accounting standard.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 68: Accounting and Financial Reporting for Pensions

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68, which will change the accounting and financial reporting requirements for state and local governments that provide their employees with pensions. This Statement replaces the requirements of GASB Statement Nos. 27 and 50 as they relate to pensions that are provided through pension plans administered as trusts, or equivalent arrangements that meet certain criteria. These changes will affect your financial statements for the year ended December 31, 2015.

This Statement applies specifically to governments that provide their employees with pensions through pension plans in which a government's contributions to the trust used to administer a pension plan are (1) irrevocable, (2) restricted to paying pension benefits, and (3) beyond the reach of creditors.

Government employers that provide their employees with a defined benefit pension are classified in one of the following categories for this Statement:

- > Single employer – is an employer whose employees are provided with a defined benefit pension through a single employer pension plan
- > Agent employer – is an employer whose employees are provided with a defined benefit pension through an agent multiple employer pension plan
- > Cost-sharing employer – is an employer whose employees are provided with a defined benefit pension through a cost-sharing multiple employer pension plan

Under the new standards, in financial statements prepared using the economic resources measurement focus (accrual basis of accounting), the single or agent employer is required to recognize a liability equal to the net pension liability. The net pension liability is defined as the present value of projected benefit payments to be provided through the pension plan, to current and inactive employees, that is attributed to those employees' past periods of service (total pension liability), less the amount of the pension plan's net position. A cost-sharing employer is required to recognize its proportionate share of the net pension liability.

The new Statement contains requirements related to the actuarial cost method and certain other assumptions used in the preparation of an actuarial valuation. The Statement also requires that an actuarial valuation of the total pension liability be performed at least every two years, with more frequent valuations encouraged. In addition, this Statement also requires disclosing certain information in the notes to the financial statements, as well as presenting certain required supplementary information (RSI) for the ten most recent fiscal years.

For government employers that provide their employees with a defined contribution pension, the new standards generally carry forward the existing financial reporting requirements.

We are available to further discuss these changes and the impact on your financial statements.

Office of the Comptroller Response

The Office of the Comptroller will examine the requirements of this Statement to ensure the new reporting standards are implemented properly.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 69: Government Combinations and Disposals of Government Operations

The Governmental Accounting Standards Board has issued GASB No. 69 which is aimed at improving the accounting and reporting of combinations and disposals of government operations for US state and local governments. The term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

The distinction between a government merger and a government acquisition is based upon whether an exchange of significant consideration is present within the combination transaction. Government mergers include combinations of legally separate entities without the exchange of significant consideration. This Statement requires the use of carrying values to measure the assets and liabilities in a government merger. Conversely, government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values. This Statement also provides guidance for transfers of operations that do not constitute entire legally separate entities, and in which no significant consideration is exchanged. This Statement defines the term *operations* for purposes of determining the applicability of this Statement and requires the use of carrying values to measure the assets and liabilities in a transfer of operations.

A disposal of a government's operations results in the removal of specific activities of a government. This Statement provides accounting and financial reporting guidance for disposals of government operations that have been transferred or sold.

This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions.

The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. If you have any questions on how this might impact your audit, we are available to discuss this with you.

Office of the Comptroller Response

The Office of the Comptroller will examine the requirements of this Statement to ensure the new reporting standards are implemented properly. The County is not aware at present of any transactions that would be impacted by this new governmental standard.

NEW AUDITING STANDARDS REVISIONS

United States Auditing Standards Revisions

In an effort to make US generally accepted auditing standards (GAAS) easier to read, understand, and apply, the American Institute of CPAs redrafted all of the auditing sections in the Codification of Statements on Auditing Standards. This is also known as the Clarity Project. The new standards are intended to more clearly specify the objectives of the auditor and the requirements with which the auditor must comply when conducting an audit in accordance with GAAS.

Generally speaking, the Clarity Project was not intended to change what auditors actually do. However, there were several areas that resulted in changes to audit procedures. The following outlines some of the changes / areas of emphasis:

- Consideration of Laws and Regulations – The clarified standards require auditors to perform procedures to identify instances of noncompliance with those laws and regulations that may have a material effect on the financial statements, including the inspection of correspondence with relevant licensing or regulatory authorities.
- Communicating Internal Control Related Matters – The clarified standards require auditors to include an explanation of the potential effects of significant deficiencies and material weaknesses identified and communicated to those charged with governance.
- Group Audits – AU-C section 600 (Group Audits) is significantly broader in scope than the previous standard, which focused primarily on the involvement of “other” auditors. It establishes new terms such as “group” and “component”. A group includes all the components whose financial information is included in the group financial statements. A component is an entity or business activity that is required to be included in the group financial statements. Examples include: component units, departments with separate financial reporting systems, and joint ventures with an equity interest. A Group Audit can apply whether or not auditors are from different firms, different offices, or teams within the same firm; or even if it is the same team performing the audits of the group and all components.
- A significant change under AU-C section 600 is in the area of subsequent events identification. The group auditor must perform procedures to identify subsequent events between the date of the component auditor’s report and the date of the group auditor’s report, which often can cover a significant time period. Such procedures may involve group management and the various components, including:
 - > Obtaining an understanding of any procedures that group management has established to ensure that subsequent events are identified.
 - > Reading available interim financial information of the component and making inquiries of group management.
 - > Inquiring of group management regarding currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position of the group, or results of operations for items that represent subsequent events.
- Auditors’ Reports – The Auditors’ Report will now include the use of headings, expanded discussions of management’s responsibility for the financial reporting process, and the introduction of two new terms: *emphasis-of-matter* and *other-matter* paragraphs.

These changes became effective for the year ending December 31, 2012 and subsequent years. This comment does not require any action by the County or its staff.

NEW AUDITING STANDARDS REVISIONS (cont.)

YELLOW BOOK (GOVERNMENT AUDITING STANDARDS) REVISIONS

In December 2011, the Government Accountability Office (GAO) released a revision to Generally Accepted Auditing Standards (GAGAS) which is also known as Yellow Book. This was the first revision since July 2007. The changes became effective for years ending December 31, 2012.

One of the most significant modifications of the new standards was the change to the conceptual framework for independence. Previously, the standards were more rules-based with identification of certain non-audit services that were either allowed or prohibited. The new framework provides a means for auditors to assess their independence based on the unique facts and circumstances of the work and the client. However, certain underlying concepts of the standards remain with the revision, including the fact that auditors cannot be part of your internal control system and cannot perform management functions.

Other changes to the revision include updates for new auditing standards, convergence with AICPA and international standards, and the retirement of the supplement containing select questions and answers on independence.

If you have any questions on how the implementation of these revisions impacted your audit, we are available to discuss those questions with you.

This comment does not require any action by the County or its staff.

CUSTODIAL CREDIT

Governmental Accounting Standards Board (GASB) Statement No. 40 requires disclosures about deposits and investments. One of the main purposes of GASB Statement No. 40 is to indicate to users of financial statements the custodial risks involved with an entity's deposits and investments. These disclosures are included in the notes to your financial statements.

With regard to deposits at banks, the FDIC coverage has changed once again. On January 1, 2013, the temporary unlimited coverage for non-interest bearing transaction accounts expired. The rules now also distinguish between in-state and out-of-state accounts. Here are the new rules.

- > In-state accounts (deposits are held in an institution in the same state where the government is located)
 - 1) Up to \$250,000 for the combined amount of all time (CDs) and savings deposits (includes NOW accounts and money market deposit accounts)
 - 2) Up to \$250,000 for all demand deposit accounts (defined as "deposits payable on demand and for which the depository institution does not reserve the right to require advanced notice of withdrawal")

- > Out-of-state accounts (deposits are held in an institution outside of the state where the government is located)
 - 1) Up to \$250,000 for the combined total of all deposit accounts

These rules are in effect as of January 1, 2013. You will need to consider whether the new rules affect your deposit investment policies or practices.

Office of the Comptroller Response

The Comptroller's Office will work with the Treasurer's Office to determine if changes need to be made to the County's deposit policies or practices.

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.