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## COUNTY-WIDE MATTERS

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### 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 completed. 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 Milwaukee County Audit Compliance Manager and the Deputy Comptroller are working to identify and address problem areas in the cash reconciliation process. Once these areas have been identified, the Office of the Comptroller will issue a county-wide written procedure for cash reconciliation which will clearly define a process and a timeframe for periodic cash reconciliations. This procedure will then be communicated to all financial and accounting personnel.

#### **Implementation Status – As of 12/31/14**

Is implementation complete?

*No.*

If not complete, estimated date for completion:

*December 31, 2015*

Additional comments:

*The Audit Services Division and the Treasurer's Office are collaborating to develop and implement a process whereby monthly monitoring of reconciling items will be performed by the Treasurer's Office to ensure County departments make timely entries to the Advantage Accounting System, including the review of material reconciling items during the year end closing process.*

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## COUNTY-WIDE MATTERS

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### **Internal Service Fund Deficit (Repeated comment since 2010 report)**

At December 31, 2013, the Information Management Services internal service fund had a deficit net position balance of \$3 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.

### **Implementation Status – As of 12/31/14**

Is implementation complete?

No.

If not complete, estimated date for completion:

*See comment below for explanation.*

Additional comments:

*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. The deficit will remain in the fund until the bonds are paid off. To prevent this issue in the future, the Office of the Comptroller will ensure that debt payments match the useful life of the asset.*

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## COUNTY-WIDE MATTERS

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### **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 and also before the supporting documentation is sent to the Treasurer's office. 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***

In 2013, the Treasurer's Office instituted a strict policy calling for all transfer documents to be signed by an authorized individual before being processed. To improve upon this control, in 2014, a procedure will be instituted whereby anyone preparing a transfer must physically sign the transfer rather than merely typing their name on the form. When transfers are turned in to the Treasurer's Office, the authorized signature will be verified and must be different than the signature of the person preparing the document.

#### **Implementation Status – As of 12/31/14**

Is implementation complete?

*In process.*

If not complete, estimated date for completion:

*June 2015*

Additional comments:

*In 2013, the Treasurer's Office instituted a strict policy calling for all transfer documents to be signed by an authorized individual before being processed. To improve upon this control, in 2014, a procedure was instituted whereby anyone preparing a transfer must physically sign the transfer rather than merely typing their name on the form. When transfers are turned in to the Treasurer's Office, the authorized signature will be verified and must be different than the signature of the person preparing the document. In addition, effective January 1, 2015, the Office of the Comptroller's Accounts Payable Division assumed responsibility for this function as it is in a better position to verify availability of funds before the authorization and processing of EFTs.*

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## OFFICE OF THE COMPTROLLER

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

We noted that approximately 93 adjusting journal entries were made subsequent to April 21, 2014 relating to the 2013 financial statements, which is an increase in the number of entries that were made during the 2012 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 2013 budget surplus calculation. Continued emphasis and the enforcement of individual department's compliance with the year-end closing calendar may help to improve this process.

#### ***Office of the Comptroller Response***

This issue relates back to the fact that the Office of the Comptroller was understaffed the last few years. To rectify this situation, the Office of the Comptroller has been working diligently to adequately staff and educate the Central Accounting team. During 2013, two higher level staff members in Central Accounting and the Deputy Comptroller attended governmental accounting classes with the GFOA (Government Finance Officers Association). Also during the latter half of 2013, we placed a seasoned member of our management team as the Interim Central Accounting Manager. In early 2014, we hired a new Central Accounting Manager, promoted a team member to Accounting Supervisor, and added an additional Accountant who came to our area from another branch of Milwaukee County government. In addition, the new Accounting Manager, Accounting Supervisor, and the new Accountant attended governmental accounting classes held by GFOA.

During 2013, the Comptroller began to delegate complex analytical exhibits to senior members of the Central Accounting team in order to properly align job duties with organizational titles. Plans call for this reorganization of workflow to continue through weekly training sessions, which will ultimately result in an end to the bottleneck that has slowed the audit process in prior years.

The 2013 CAFR has been reformatted to a more professional appearance and the team has worked to ensure that financial statement exhibits tie back into the notes section and account balances now download to a document that is used for a completely new and reformatted State Report. The team has also been working on cross-training and documenting departmental policies and procedures so that job duties are clear, concise, and achievable for all.

During November of 2013, the Office of the Comptroller began to conduct training sessions (to be held on an annual basis) which are open to all County financial and accounting staff members. Topics include the importance of deadlines, and accounting policies and procedures within Milwaukee County. During these sessions, attendees are introduced to the Central Accounting team, provided with year-end schedules, procedural details, and contact information.

#### **Implementation Status – As of 12/31/14**

Is implementation complete?

*No.*

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## OFFICE OF THE COMPTROLLER

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If not complete, estimated date for completion:  
*December 31, 2015*

Additional comments:

*In addition to a staffing hire and additional training, the Office of the Comptroller has entered into a contractual agreement to transition to the case management project which will provide for greater automation of the CAFR reporting process and greater efficiencies for lead accounting staff.*

### **Trust and Agency Funds (Repeated comment 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 2009. We recommend that the County establish a process to ensure that these trust and agency accounts are reviewed in accordance with County policy.

#### ***Office of the Comptroller Response***

During 2013, the December 31, 2009 review of trust and agency funds was approved by the Milwaukee County Board. Central Accounting team members are currently in the process of completing the December 31, 2012 review. Plans call for reviews of trust and agency funds to be done on a bi-annual basis going forward.

### **Implementation Status – As of 12/31/14**

Is implementation complete?  
*Yes.*

If not complete, estimated date for completion:  
*N/A*

Additional comments:

*The Bi-Annual Review of Trust and Agency Funds containing the December 31, 2012 trust information was released on February 9, 2015.*

### **Children's Long-Term Support (CLTS) Claims (Repeated comment since 2012 report)**

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 and 2013, which were determined not to be material to the financial statements taken as a whole. However, because of the significance of this

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**OFFICE OF THE COMPTROLLER**

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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 2014 and beyond.

***Office of the Comptroller Response***

The County is currently working with the State of Wisconsin to obtain the necessary reports and will determine the appropriateness of recording this activity in the County's records going forward.

**Implementation Status – As of 12/31/14**

Is implementation complete?

*No.*

If not complete, estimated date for completion:

*June 2015*

Additional comments:

*The Office of the Comptroller is working with the Department of Human Services on numbers for inclusion in financial reports.*

**Journal Entry Approval**

The County has a procedure that requires a review of a journal entry must be performed by an individual who did not prepare the entry. This review is usually performed by an employee in the Office of the Comptroller. However, there is no process in place to have an individual review and approve any journal entries made by an employee in the Office of the Comptroller. We recommend that a process be implemented to have designated individuals review journal entries made by the Office of the Comptroller employees for reasonableness.

***Office of the Comptroller Response***

The Office of the Comptroller is currently working to institute a procedure whereby all journal vouchers made by Central Accounting personnel will be subject to peer review.

**Implementation Status – As of 12/31/14**

Is implementation complete?

*In Progress*

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**OFFICE OF THE COMPTROLLER**

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If not complete, estimated date for completion:  
*December 31, 2015*

Additional comments:

*Step 1 is complete for review of outside journal entries by Comptroller office staff. In addition, Comptroller staff cannot approve their own journal entry. For Step 2, we are working with IMSD to prepare a report summarizing JV's posted during the year, to see if there is an unusual pattern in entries. This will be completed in 2015.*

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## DEPARTMENT OF ADMINISTRATIVE SERVICES (“DAS”) – PROCUREMENT DIVISION

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### **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 application of the policies. Exceptions to the policies noted during our testing included the following:

- > No documentation of review by supervisory personnel.
- > No documentation of review of purchases by someone other than the purchaser.
- > 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***

Following are the actions taken, or to be taken, to address the internal control issues identified:

- > No documentation of review by supervisory personnel.
- > No documentation of review of purchases by someone other than the purchaser.

In 2014, a quarterly review of cardholders by card coordinators was initiated. This included distribution of the purchasing card manual and responsibilities. A manual and statement of acceptance of responsibility of coordinator is sent on any card issuance, renewal or replacement.

In addition to this process, a monthly reminder will be sent to card coordinators of the need to document their review and that reviews by supervisory personnel need to be conducted and documented as well.

Further, Procurement will investigate the feasibility of utilizing the US Bank online process for approvals, if functional and adaptable to County requirements.

- > Unable to locate employee authorization forms.
- > Unable to locate signed employee agreements/training verification forms.

“Employee Authorization Forms” and signed “Employee Agreement Forms” are maintained by Procurement within each cardholder file. Any time a card is renewed or replaced a confirming copy of form is sent to the department. A cardholder-by-cardholder file review is performed annually by Procurement to confirm possession of the forms. By end of 2015, scanned copies of these forms will be placed in the file for each cardholder, for review by any authorized party.

### **Implementation Status – As of 12/31/14**

#### **Is implementation complete?**

Yes.

*Original Statement: “Employee Authorization Forms” and signed “Employee Agreement Forms” are maintained by Procurement within each cardholder file. Any time a card is renewed or replaced a confirming copy of form is sent to the department. A cardholder-by-cardholder file review is performed annually by*



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**DEPARTMENT OF ADMINISTRATIVE SERVICES ("DAS") – PROCUREMENT DIVISION**

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*Procurement to confirm possession of the forms. By end of 2015, scanned copies of these forms will be placed in the file for each cardholder, for review by any authorized party.*

**If not complete, estimated date for completion:**

N/A

**Additional comments:**

*All files are in Procurement. FY 2014 Audit requested these documents and 100% of them were available in files and provided. To further enhance process, in 2015 we will use DocuSign to obtain/renew cardholder agreements.*

**Is implementation complete?**

Yes.

*Original Statement: In 2014, a quarterly review of cardholders by card coordinators was initiated. This included distribution of the purchasing card manual and responsibilities. A manual and statement of acceptance of responsibility of coordinator is sent on any card issuance, renewal or replacement.*

*In addition to this process, a monthly reminder will be sent to card coordinators of the need to document their review and that reviews by supervisory personnel need to be conducted and documented as well.*

*Further, Procurement will investigate the feasibility of utilizing the US Bank online process for approvals, if functional and adaptable to County requirements.*

**If not complete, estimated date for completion:**

N/A

**Additional comments:**

*Continued uninterrupted the quarterly notices in 2014, with manuals, and acceptance letters.*

*A monthly reminder was initiated reminding Card Coordinators of duties and signature requirements. This item was also included in manual. Monthly reminder of need to have all statements in hand also request notification of any cardholder's statement they do not have in hand to Procurement, as we will now suspend card for lack of documentation for prior months' charges.*

*US Bank was contacted, approval process in US Bank Access Online for approval at a statement level is only available to Federal Government. Account Manager is seeking an exception for Milwaukee County. Should this be available an actual acknowledgement ('approval') in US Bank Access Online will be required each month for each statement. Should it not be 'approved' reporting will be available to suspend card. Short of requiring submission of statements with documentation and signatures monthly to Procurement, this should establish documentation was received.*

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## **DEPARTMENT OF ADMINISTRATIVE SERVICES ("DAS") - HUMAN RESOURCES DIVISION**

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### **New Hire Policy**

During our testing of internal control procedures related to new hires for 2013, we noted that the County has established and implemented a standard new hire policy county-wide; however, it was noted that certain departmental policies / procedures have deviated from the County's standard policy. We reviewed and tested compliance with the general policies for multiple departments and found that not all new hire forms (ETCR Reports) are being approved by the appropriate department personnel.

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

### ***Department of Human Resources Response***

Human Resources is in agreement with the recommendations. We are currently already in the process of centralizing the ETCR process into our Compensation/HRIS area, resulting in a limited number of individuals managing the process moving forward to ensure accuracy and timeliness. This centralization project will include communications to managers about the new standardized process, and appropriate documentation and approvals.

### **Implementation Status – As of 12/31/14**

#### **Is implementation complete?**

*No, this initiative is not complete, but is underway/in progress. Our first pilot, which will test the newly designed process for centrally entering new hires and terminations, will be complete by 3/15/2015. The pilot includes two business units, BHD and Parks.*

#### **If not complete, estimated date for completion:**

*Third quarter 2015.*

#### **Additional comments:**

*A new Compensation/HRIS Director began oversight of this area in late September 2014. Since then we have developed one common ETCHR form (we had discovered that there were approximately 15 variations countywide). We designed a two-phase pilot during which entry of new hires, rehires and terms will be centralized. We also conducted onsite training for the HRIS staff.*

*The new form that will replace the ETCHR, which we have named Personnel Action Form (PAF), has been developed as an electronic form and will be tested as part of the pilot. The new PAF was constructed with dropdowns matching the HPW system, has a built-in an electronic routing process, and maintains the confidentiality of private information where appropriate.*

*A central HRIS email box has also been established. Once these forms have been filled out they will now be sent electronically to the central mailbox for entry. This approach is also being tested during the pilot phase.*

*Once the pilot has successfully demonstrated the processing of these forms, the rest of our plan will be fully implemented. The new form and process will then be rolled out countywide during the remainder of 2015, department by department. Our goal is to complete this project by end of third quarter, 2015.*

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## INFORMATION MANAGEMENT SERVICES DEPARTMENT (“IMSD”)

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### Physical Security – Data Center

Milwaukee County does not proactively review the listing of employees that have access to the data center. Additionally, there is currently no process in place for Milwaukee County to validate City of Milwaukee employees' access nor whether the City is performing their own annual access review of the data center. We suggest that the Milwaukee County data center access listing be reviewed on an annual basis. Documentation of the review and changes made as a result of the review including approval signoffs should be retained for audit purposes. This review should be performed for both the common area and the specific room which houses the County's infrastructure. We recommend that the County find a way to work with the City to establish a formal user access review since the data center is shared.

#### ***IMSD's Response***

Following the recommendations from the 2013 audit of Milwaukee County-Facilities completed the project updating the card access systems for the courthouse complex and IMSD increased camera monitoring within the MER/G2A data centers. Further, in response to CJIS compliance physical logs have also been added to both data centers.

IMSD staff will work with Facilities to access and review the entry logs (electronic and physical) to compare to authorized personnel and vendors. This process will be established through planning in Q3 of 2014 and will be monitored monthly beginning in Q4 of 2014.

Lastly, IMSD is engaged with the City of Milwaukee security team members to review the City's access systems and authorization and create a similar review process for the entry access logs (electronic/paper) for the City Datacenter. The plan has yet to be determined and what additional systems (if any) and/or processes will be required for the County to maintain compliance with these audit's findings. Meetings will continue through Q3, 2014 with a plan developed in Q4, 2014.

### Implementation Status – As of 12/31/14

*IMSD has implemented an interim process to review entry access to all three data centers annually (G2A, MER and City Data Center). This interim process is in place to allow the IT Manager (Security and Continuity) time to implement enterprise-wide and industry best practice standards for physical security.*

#### *Interim Process for City Data Center:*

*Bob Mayer, IMSD Systems Engineer – Mainframe Services requests the entry access logs from Matthew Mortwedt, Operations & Maintenance Manager for City of Milwaukee. The log is requested within the first quarter of the year for the prior year's access. As of February 6, 2015, the audit has resulted in 6 removal requests and 6 additions resulting from recent staffing changes. Denise Tadych, the Mainframe Services RACF Administrator is charged with this annual review and request process. Reports will be provided to the IT Manager (Security and Continuity) for review.*

#### *Interim Process for G2A and MER Data Centers:*

*Laurie Panella, CIO, requests the entry access logs from Gary Waszak, Interim Facilities Director. The log is requested within the first quarter of the year for the prior year's access. The IT Manager (Security and Continuity) will be provided with the entry access logs and will work with the IMSD leadership and managers to validate and reconcile entry access for IMSD staff and IMSD vendors. As of February 6, 2015, Milwaukee County Facilities Locksmith Russell Weber was notified that the request is pending from IMSD CIO to the Facilities Director.*

### **Resource Alignment**

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## **INFORMATION MANAGEMENT SERVICES DEPARTMENT ("IMSD")**

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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 there is no resource that is clearly identified as being ultimately responsible for the County's information security. While there have been significant improvements and actions taken from our prior year recommendation, it was noted that there are still some areas where resources may not be properly aligned with their job roles given their skill sets. We also noted that a security team is being established but that there is no resource responsible for Information Security. We suggest that Milwaukee County continue its efforts to assess the current resource model and clarify roles and responsibilities of all IMSD individuals.

### ***IMSD's Response***

Efforts to evaluate the role of IT within Milwaukee County, as well as, roles and responsibilities and department structure will continue. Between the retirement of the IT Director and turnover of key HR staff, however, this initiative has slowed but not ceased. IMSD is committed to their resource alignment initiative as well as continues to be committed to establishing a definitive role for IT security. IMSD will work with the Department of Administrative Services and have a plan to address this need by Q4, 2014.

### **Implementation Status – As of 12/31/14**

*IMSD has a budgeted position within the 2015 budget for an IT Manager (Security and Continuity) which will be ultimately responsible for aligning IMSD on security requirements and processes. The role has been filled using a contracted resource since November 2014. That individual is developing an Information Security Management Program (ISMP) to begin deployment in 2015. This program will look to address the challenges above including, but not limited to: an aligned understanding of internal control activities and expected activities, a better ability to provide control related records in a timely fashion, and better responsiveness as a whole. Implementing the ISMP is an ongoing effort that will span multiple years, however, IMSD is looking to align IMSD employees on operating in a more secure manner by the end of 2015.*

### **Access Violation Monitoring**

Penetration tests or vulnerability scans were not performed during the year; in prior years a vulnerability scan was performed. Additionally, there is no formal process in place for reviewing firewall logs on a routine basis and tracking issues through resolution. Currently, firewall logs are reviewed on an as needed basis for diagnostic purposes. We suggest that a process be established for responding to, addressing and tracking critical/high risk vulnerabilities identified in current/prior penetration tests and vulnerability scans. Additionally, we suggest that a formalized policy and procedure be created for monitoring, addressing, and tracking firewall violations.

### ***IMSD's Response***

IMSD's Connectivity staff is currently in the early stages of reviewing products that will provide more complete enterprise access violation monitoring. Once a product or suite of products is selected, IMSD has requested the budget authority to purchase these tools within the 2015 budget. As mentioned in previous responses IMSD is committed to developing an IT Security role within the department and Connectivity will work to develop and align intrusion testing policies and procedure that meets the departments overall enterprise security goals once established.

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## **INFORMATION MANAGEMENT SERVICES DEPARTMENT ("IMSD")**

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### **Implementation Status – As of 12/31/14**

*One of the components of the ISMP includes penetration tests and vulnerability scans. IMSD is in the process of negotiating with vendors to perform these activities in 2015 and are expected to have this completed in Q1 2015. In future years, IMSD is looking to complete these activities on an annual basis at a minimum and will be defined within the ISMP. IMSD is also evaluating IPS/IDS solutions and is also looking to implement centralized log management and a SIM system. The ISMP also will define roles, responsibilities, process, and procedure in the area of log review and vulnerability mitigation.*

#### **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. As a mitigating control, the help desk receives a weekly termination report from HR and verifies that individuals on the report have had their system access removed. We suggest that the current user account management process be evaluated and that controls be established which help ensure timely termination notification to the help desk. Timely notification and immediate removal of system access will reduce the risks related to unauthorized users having access to key financial systems beyond their termination date.

#### ***IMSD's Response***

IMSD currently has two teams working in conjunction between the mainframe and service desk staff persons to resolve any user access discrepancies. HR has been instrumental and is a key player in this process. Previous audit responses have documented that, internally, IMSD has developed administrative process and directives to support the timely management of user accounts. The root issue, however, is timely notification of employee separation. IMSD is depending on management and HR personnel to timely notify IMSD of the termination. This is a known risk point. IMSD will continue efforts with the Human Resource Department to review the best approach and develop a plan that will ultimately lead to the centralization of the hiring termination or transfer of personnel.

### **Implementation Status – As of 12/31/14**

*As part of the deployment of the ISMP, IMSD will be formalizing the process and procedures associated with account management. This will include definition of roles and associated responsibilities. Additionally, the process and procedure development will include the frequency these tasks are performed and will also identify the supporting departments/divisions that participate in these processes. This will ensure alignment within IMSD, as well as, across other departments/divisions.*

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**INFORMATION MANAGEMENT SERVICES DEPARTMENT ("IMSD")**

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**User Account Access Review**

Milwaukee County does not have a formal annual user access review process for the SCRIPTS application. We suggest that the SCRIPTS user access listing be reviewed on an annual basis. Documentation of the review and changes made as a result of the review including approval signoffs should be retained for audit purposes. Additionally, this review should focus on identifying any segregation of duties conflicts within the application.

***IMSD's Response***

For 2014, IMSD mainframe staff have implemented a new process to review the Scripts user access list with RACF. The RACF and Scripts administrators exchange information and compare rights and access when changes occur throughout the year and will complete overall annual review prior to the audit schedule. Item addressed and can be considered closed. IMSD will monitor the process for consistency.

**Implementation Status – As of 12/3/14**

*As was previously stated, this item is addressed and can be considered closed. The only new addition to the process will be the reporting of the reconciliation between RACF and Scripts to the IT Manager (Security and Continuity).*

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## **EMPLOYEES' RETIREMENT SYSTEM ("ERS")**

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### **Retention of Participant Information and Forms**

During our demographic and benefit payment testing related to active, terminated and retired participants of the Plan, we noted thirteen instances where your personnel were unable to obtain enrollment forms and/or personnel files supporting the participation date of plan participants and retirement date of retired 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, along with scanning the document into the V3 system. If the form is not received within three weeks, retirement office staff follows up with the field HR manager.

### **Implementation Status – As of 12/31/14**

#### **Is implementation complete?**

*Implementation was completed the second quarter of 2014.*

#### **If not complete, estimated date for completion:**

*N/A*

#### **Additional comments:**

*Staff receive reminders on the process outlined above on an annual basis. We are looking for an automated way to audit completion / return of the forms. Currently, this is a manual process.*

### **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

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## **EMPLOYEES' RETIREMENT SYSTEM ("ERS")**

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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***

ERS is actively reviewing the pension calculations on three different levels – the retirement specialist are preparing the calculation, then it reviewed by another retirement specialist (peer-to-peer review). Then the pension calculations are reviewed by the fiscal office, in which the assistant fiscal officer reviews the calculations and sets up the payment schedule. It is then reviewed by the fiscal officer and sent to the Retirement Information System Specialist for final review. The fiscal office has updated their COLA review process to ensure that the COLA's are being applied properly going forward.

### **Implementation Status – As of 12/31/14**

#### **Is implementation complete?**

*Yes, implementation has been completed.*

#### **If not complete, estimated date for completion:**

*N/A*

#### **Additional comments:**

*COLA adjustments are audited as part of our monthly disbursement process. All COLA adjustments are also reviewed annually as part of the year end process. A system issue – when updates were made to addresses, direct deposit information, etc., the pension application was being zeroed out resulting in zero COLA amounts when record was saved -- was uncovered. This issue has been resolved.*

### **User Account Access Review**

Milwaukee County does not have a formal annual user access review process for users who administer and maintain Vitech (V3). During our procedures, we identified 4 user ID's which were deemed to have inappropriate access to the application. The 4 user ID's were removed/deleted by IMSD personnel. We suggest that the Vitech (V3) user access listing be reviewed on an annual basis. Documentation of the review and changes made as a result of the review including approval signoffs should be retained for audit purposes. Additionally, this review should focus on identifying any segregation of duties conflicts within the application.

### **Human Resources' / ERS' Response**

#### **Pension (V3 – Vitech Inc.)**

#### **Process Overview:**

Employees of Milwaukee County Employees' Retirement System (ERS) and Milwaukee County Benefits department are given rights to the system at the time of hire with a request from the ERS Manager or ERS Assistant Manager emailed to the Pension Information System Specialist.



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## **EMPLOYEES' RETIREMENT SYSTEM ("ERS")**

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When employee is terminated access is removed with a request from the ERS Manager or ERS Assistant Manager emailed to the Pension Information System Specialist. Review complete listing on an annual basis in January.

### **Application Roles:**

Access is given to the employee by the job duties within the department.

- ERS Clerical Specialist (Responsibilities)
  - Update beneficiaries
  - Updates to direct deposit
  - Update addresses
  - Update tax deductions
  - Create and print letters
- ERS Administrative Specialist (Responsibilities)
  - Same as clerical specialist
  - Create pension calculation
  - Create pension estimates
- System Administrator / Assistant ERS Manager (Responsibilities)
  - Set up users
  - Reset user password
  - Enter part account adjustments
  - Import and Export data
  - Extract data for reports
  - Run monthly disbursements
  - Print manual checks
  - Change member demographic information
- ERS Supervisor – ERS Manager / Assistant ERS Manager (Responsibilities)
  - Enter part account adjustments
  - Verify annuity disbursements
  - Approve manual checks
- ERS Senior Fiscal Officer (Responsibilities)
  - Approve pension calculation
  - Set up annuity disbursements
  - Set up manual checks
- Benefits Analyst (Responsibilities)
  - Change demographic information
- Benefits Manager (Responsibilities)
  - Change demographic information
- Benefits Clerk (Responsibilities)
  - Update benefits information
- Consultants

### **Implementation Status – As of 12/31/14**

**Is implementation complete?**

Yes.

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**EMPLOYEES' RETIREMENT SYSTEM ("ERS")**

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**If not complete, estimated date for completion:**

*N/A*

**Additional comments:**

*A report listing all users with Line of Business (LOB) access is generated by the Retirement Information System Specialist (RISS) and reviewed annually with Vitech, the RISS, Retirement Plan Director and Assistant ERS Manager.*

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## **DEPARTMENTAL CONTROLS**

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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.

### ***Department of Administrative Services and Office of the Comptroller Response***

During November of 2013, the Office of the Comptroller began to conduct training sessions (to be held on an annual basis) which are open to all County financial and accounting staff members. Topics include the importance of deadlines, and accounting policies and procedures within Milwaukee County. During these sessions, attendees are introduced to the Central Accounting team, provided with year-end schedules, procedural details, and contact information.

Also during the latter half of 2013, the Office of the Comptroller placed a seasoned County employee as the Interim Central Accounting Manager while actively recruiting for a permanent replacement. As of March 2014, accounting vacancies were filled county-wide and the Office of the Comptroller had hired a new Central Accounting Manager, promoted a member of the Central

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## **DEPARTMENTAL CONTROLS**

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Accounting team to Accounting Supervisor, and hired an additional Accountant, who came to the Office of the Comptroller from another agency in the County. Remaining Accountant positions in the Central Accounting area will be filled only after a thorough evaluation of all departmental job duties has been completed by the new Central Accounting Manager.

Milwaukee County management is aware of the importance of segregation of duties within departments. The Office of the Comptroller will continue to send an annual communication during the first quarter of each year to department heads, including elected administrators, reminding them of their responsibilities for the design and implementation of controls and procedures to detect and prevent fraud. In addition, the Office of the Comptroller and the Department of Administrative Services will periodically evaluate procedures and controls within departments beginning during the second half of 2014 when a collection and billing work group will be added to enhance good billing and collection practices. The work group will concentrate on methods to evaluate and enforce internal procedures and controls which in turn will strengthen billing and debt management practices.

### **Implementation Status – As of 12/31/14**

Is implementation complete?

*In Progress*

If not complete, estimated date for completion:

*On-going*

Additional comments:

*The Office of the Comptroller continues to make improvements in its accounting area. However, changes have occurred during the year for the accounting of Behavioral Health Division so that it is in compliance with new State Statutes. In addition, the Department of Administrative Services has consolidated many of its accounting functions under one business office. All of these changes require a continuing effort to communicate with departments about what constitutes good internal control. As a result, the Office of the Comptroller, with communications with the Department of Administrative Services, will need to continue to remind departments of their management's responsibility for good internal control.*

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## **NEW ACCOUNTING AND REPORTING REQUIREMENTS**

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### **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 the Employees' Retirement System of the County of Milwaukee'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, ERS, and our contracted actuarial firm are working in conjunction with Baker Tilly to ensure that these reporting requirements are met for the year ending December 31, 2014.

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## **NEW ACCOUNTING AND REPORTING REQUIREMENTS**

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### **Implementation Status – As of 12/31/14**

Is implementation complete?

*In progress*

If not complete, estimated date for completion:

*Required to be implemented for Milwaukee County Employee Retirement System (ERS) financial report for the year ended December 31, 2014.*

Additional comments:

*Discussions on the issue have occurred between Baker Tilly (external audit firm), Buck Consulting (Actuary) and the Milwaukee County pension office. The financial report for ERS will comply with the new standard, as will the actuarial report for the year ended December 31, 2014. The County will look at the reports for purposes of beginning to address the issues with implanting GASB 68 on pension reporting for governments.*

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## **NEW ACCOUNTING AND REPORTING REQUIREMENTS**

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### **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 ending 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 and ERS are working in conjunction with Baker Tilly to ensure that these reporting requirements are met for December 31, 2015.

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## **NEW ACCOUNTING AND REPORTING REQUIREMENTS**

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### **Implementation Status – As of 12/31/14**

Is implementation complete?

*In progress*

If not complete, estimated date for completion:

*Milwaukee County Comprehensive Annual Financial Report for the year ended December 31, 2015 will be in compliance with GASB 68 requirements.*

Additional comments:

*The County plans to comply with the new GASB 68 requirements. The new standard will require changes in the Milwaukee County CAFR footnote presentation for both the County's Employee Retirement System Plan (ERS) and the Milwaukee Transport Services Pension Plan (MTS ERS). In addition, the entries for GASB 34 reporting on the full accrual basis will now require that the County fully accrue the cost of the unfunded liability of the ERS and MTS ERS pension plan. This change could have an impact on tax levy, which is currently being evaluated.*



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## **NEW ACCOUNTING AND REPORTING REQUIREMENTS**

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### **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 for the year ended December 31, 2014. The County is not aware at present of any transactions which would be impacted by this new governmental standard.

#### **Implementation Status – As of 12/31/14**

Is implementation complete?

*Complete*

If not complete, estimated date for completion:

*N/A*

Additional comments:

*The Office of the Comptroller is aware of the GASB statement and will apply the rules of the GASB 69 statement if there are any future combinations or disposals that are addressed under the new statement.*

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## **NEW ACCOUNTING AND REPORTING REQUIREMENTS**

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### **GASB No. 70: Accounting and Financial Reporting for Nonexchange Financial Guarantees**

The Governmental Accounting Standards Board has issued GASB No. 70 which is aimed at improving the accounting and reporting by those governments that extend nonexchange financial guarantees and by those governments that receive nonexchange financial guarantees.

This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities.

This Statement specifies the information required to be disclosed by governments that extend financial guarantee. In addition, this Statement requires new information to be disclosed by governments that receive nonexchange financial guarantees.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2013.

#### ***Office of the Comptroller Response***

The Office of the Comptroller will review the reporting requirements and they will be reflected in the December 31, 2014 financial statements.

### **Implementation Status – As of 12/31/14**

Is implementation complete?

*Complete*

If not complete, estimated date for completion:

*N/A*

Additional comments:

*In reviewing the GASB statement on Nonexchange Financial Guarantees, the Office of the Comptroller does not see any applicable guarantees that would be subject to the statement. The County will monitor the current County guarantees to note if the qualitative factors and historical data point to a likely County payment on behalf of the outside group.*

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## **NEW ACCOUNTING AND REPORTING REQUIREMENTS**

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### **GASB No. 71: Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68**

The Governmental Accounting Standards Board has issued GASB No. 71 which is to address the issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional cost.

The provisions of this Statement are required to be applied simultaneously with the implementation of Statement No. 68.

#### ***Office of the Comptroller Response***

The Office of the Comptroller will review the requirements of this statement and implement them accordingly beginning with the year ending December 31, 2015.

### **Implementation Status – As of 12/31/14**

Is implementation complete?  
*In progress*

If not complete, estimated date for completion:  
*County's financial report for the year ended December 31, 2015.*

#### Additional comments:

*The Office of the Comptroller will examine the impact of this statement in regards to the accounting for the Milwaukee Transport Services Employee Retirement System (MTS ERS) under GASB 68. There is a potential that the County could be recognizing MTS ERS under the special funding situation as addressed under GASB 71. There is expected to be little impact from GASB 71 on this situation since the year end of the MTS ERS is the same as the County's financial report of December 31st.*

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## **NEW ACCOUNTING AND REPORTING REQUIREMENTS**

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### **OMB Issues Grant Reform Rules**

The U.S. Office of Management and Budget (OMB) recently issued comprehensive grant reform rules titled "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards." The new requirements consolidate what was previously in eight separate OMB Circulars into a new document being referred to as the "super circular" or "omni-circular".

The grant reform rules are intended to streamline the Federal government's guidance on administrative requirements, cost principles, and audit requirements for federal awards. The final guidance supersedes OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122, and A-133.

Some of the most significant changes to the administrative requirements include a heightened focus on program performance results, use of technology, standardization of grant documents, and coordinated oversight. The cost principles consolidation includes changes to the definitions of direct and indirect costs, a provision for a de minimis indirect cost rate of 10%, changes to payroll time and effort reporting requirements, and some changes to the allowability of selected cost items. The new rules are expected to be implemented by federal agencies, and pushed out to grant recipients, over the upcoming year.

The reform raises the threshold for a single audit to \$750,000, and also includes some changes to program risk assessments, audit coverage, and reporting of findings. The changes in audit requirements will take effect beginning with years ending December 31, 2015.

### **Implementation Status – As of 12/31/14**

Is implementation complete?

*In Progress*

If not complete, estimated date for completion:

*December 31, 2015*

Additional comments:

*The Office of the Comptroller has begun to receive training on the new OMB rules. We will look to see what needs to be done during 2015 to inform departments on the new rules, and what changes need to take place in the Comptroller office on the new rules.*