

County of Milwaukee

Communication to Those Charged With
Governance and Management

December 31, 2023

County of Milwaukee, Wisconsin

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To the Board of Supervisors of
the County of Milwaukee

During our audit of the financial statements of the County of Milwaukee, Wisconsin for the year ended December 31, 2023, we became aware of a limited number of matters that are opportunities for strengthening internal control and operating efficiency. The following comments are related to procedural matters which should be considered by County management. As always, you should consider the costs of making improvements to the expected benefits. A separate report dated July 31, 2024 contains our required communications on internal control matters. This letter does not affect our report dated July 31, 2024, on the financial statements of the County of Milwaukee.

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

The County's written responses to the matters identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

This communication is intended solely for the information and use of the Board of Supervisors, management and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Baker Tilly US, LLP

Milwaukee, Wisconsin
July 31, 2024

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

OFFICE OF THE COMPTROLLER

Expedite Closing and Financial Reporting Process

We noted that 111 adjusting journal entries were made subsequent to May 6, 2024 relating to the 2023 financial statements, which is an increase in the number of entries that were made during any past 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 these entries significantly impacted the amount of the County's 2023 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

The Office of the Comptroller agrees with this recommendation and the steps outlined in the corrective action plan provided in response to Finding No. 2023-001 - Material Weakness - Internal Controls Over Financial Reporting, as communicated by Baker Tilly in its Independent Auditors' Report on Internal Control, also addresses this matter.

Cash Reconciliations

The process of reconciling bank accounts should be completed on a monthly basis to ensure that all transactions are properly recorded in the County's general ledger. Furthermore, this process is completed as a component of internal control to identify and / or deter any improper transactions being made to the County's bank accounts. The County has a process whereas the Audit Services Division performs several cash reconciliations and determines any unrecorded disbursements or unrecorded receipts that should be recorded to reconcile the bank account to the general ledger. It was noted during the 2023 audit that as of December 31, 2023, these cash reconciliations were completed but the resulting unrecorded transactions were not recorded in the general ledger. This led to post close journal entries having to be recorded as part of the audit to show correct cash balances. We recommend that the unrecorded disbursements and receipts be recorded monthly and that the County evaluate a process to follow up that departments have done so.

Office of the Comptroller Response

The Office of the Comptroller agrees with this recommendation. To ensure unrecorded disbursements and receipts are recorded timely, representatives of both Central Accounting and Audit Services Divisions will meet monthly with departmental fiscal staff to review unrecorded items.

OFFICE OF THE COMPTROLLER (CONT.)

Accounts Payable Process

During the 2023 audit, it was noted that there were deficiencies over processes related to year end accounts payable. Although the County has a process to perform a review of transactions after year end to determine if an expenditure/expense should be recorded back to the appropriate period, there were several items, including retainages that were either missed being recorded or noted as related to 2023 but not booked back. We also noted that the threshold being used for the capital projects fund analysis was too low as material adjustments were noted. We recommend re-evaluating the thresholds used to make sure material items are not identified subsequent to the County's analysis. We also recommend that the County record accruals noted to the appropriate period and verifies that this includes funds related to all funds and departments.

Further, during our testing of Milwaukee County Transit System's (MCTS) account payable balances, we identified deficiencies over processes related to year end accounts payable. During discussions with key personnel, we learned that their process for determining if an invoice should be booked back to an appropriate period was based on using invoice date rather than the date that goods or services were received. We recommend that individuals in departments outside of the Office of the Comptroller be educated on what to look for when recording accruals. Also, unlike the process mentioned above in the Office of the Comptroller's review of checks after year end, there is currently no evaluation of checks written by MCTS after their books are closed early in the subsequent year to determine if accounts payable should be recorded. We recommend that the County establish a process in future year-ends to address this gap after MCTS closes its books.

Office of the Comptroller Response

The Office of the Comptroller agrees with this recommendation. To ensure proper accrual of Accounts Payable, Central Accounting will separate operational and capital expenditures to allow different thresholds for each category. The County will further re-evaluate the thresholds for accrual as well as the date any threshold should be increased prior to the end of this year, and will update procedural documentation. The review of invoices will utilize the date the goods or services were received, rather than the invoice date, in determining if an accrual entry is necessary. And this process will be properly communicated to all County departments.

Further, a process will be developed between Central Accounting and MCTS to ensure all accruals are completed after year-end, including items that may fall in the gap after MCTS closes its books.

INFORMATION MANAGEMENT SERVICES DIVISION (IMSD)

IT Assessment Scope

In support of the Milwaukee County (County) Financial Statement Audit, Baker Tilly must gain an understanding of the financial systems and the IT control processes that support each of the below applications. This is completed to allow the financial statement audit team to adjust work based on the level of IT risk related to significant processes affecting financial reporting. The assessment is based on twelve IT general controls based on industry leading practices, including: the COBIT framework, ISO standards and IT Infrastructure Library (ITIL) process models.

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

- Infor
- Dayforce
- Scripts
- Synthesis
- Landau

In addition to the in scope systems, Baker Tilly is required to gain an understanding of the Milwaukee County IT network infrastructure and controls that support the security of the IT environment.

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

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

PRIOR YEAR COMMENTS ADDRESSED IN THE CURRENT YEAR

The following comments were included in last year's report and were addressed during 2023:

1. New Accounting and Reporting Requirements
 - a. GASB 94
 - b. GASB 96
 - c. GASB 99

DEPARTMENTAL CONTROLS

As part of our annual audit process, we focus our efforts on the primary accounting systems, internal controls and procedures used by the County. This is in keeping with our goal to provide an audit opinion, which states that the financial statements of the County are correct in all material respects.

In some cases, the primary system of accounting procedures and controls of the County is supported by smaller systems which are decentralized and reside within a department or location. In many cases, those systems are as simple as handling cash collections and remitting those collections to the county treasurer. In other cases, the department may send invoices or statements of amounts due, and track collections of those amounts in a standalone accounts receivable system.

Generally, the more centralized a function is, the easier it is to design and implement accounting controls that provide some level of checks and balances. That is because you are able to divide certain tasks over the people available to achieve some segregation of duties. For those tasks that are decentralized, it may be more difficult to provide for proper segregation of duties. Therefore, fewer people involved in most or all aspects of a transaction, you lose the ability to rely on the controls to achieve the safeguarding of assets and reliability of financial records.

As auditors, we are required to communicate with you on a variety of topics. Since there is now more emphasis on internal controls and management's responsibilities, we believe it is appropriate to make sure that you are informed about the possibility that a lack of segregation of duties that may occur at departments or locations that handle cash or do miscellaneous billing. The County has a number of decentralized departments and / or locations that may fit this situation.

As auditors, we are required to focus on the financial statements at a highly summarized level and our audit procedures support our opinion on those financial statements. While we do evaluate internal controls at some decentralized departments each year, departments or locations that handle relatively smaller amounts of money are not the primary focus of our audit. It is not unusual to have a lack of segregation of duties within some of these decentralized departments and, therefore, the opportunity for loss is higher there than in centralized functions that have more controls.

Because management is responsible for designing and implementing controls and procedures to detect and prevent fraud, we believe that is important for us to communicate this information to you. We have no knowledge of any fraud that has occurred or is suspected to have occurred within the County departments. However, your role as the governing body is to assess your risk areas and determine that the appropriate level of controls and procedures are in place. As always, the costs of controls and staffing must be weighed against the perceived benefits of safeguarding your assets.

Without adding staff or splitting up the duties, your own day-to-day contact and knowledge of the operation are also important mitigating factors.

Office of the Comptroller Response

The Office of the Comptroller will continue to send an annual communication to department heads and elected administrators, reminding them of their responsibilities for the design and implementation of controls and procedures to detect and prevent fraud. This communication includes a comment in respect to the need for consideration of segregation of duties within decentralized functions.

In addition, the Comptroller's Office will reach out to any new department heads as they are on-boarded to ensure there is full understanding of departmental responsibilities related to internal controls.

NEW ACCOUNTING AND REPORTING REQUIREMENTS

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

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

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

Office of the Comptroller Response

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

GASB No. 101: Compensated Absences

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

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

Office of the Comptroller Response

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

GASB No. 102: Certain Risk Disclosures

The Governmental Accounting Standards Board has issued GASB No. 102 to provide financial statement users with information about certain risks when circumstances make a government vulnerable to a heightened possibility of loss or harm. It requires governments to disclose essential information about risks related to vulnerabilities due to certain concentrations or constraints. .

The requirements of this Statement are effective for reporting periods beginning January 1, 2025.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2025 financial statements.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 103: *Financial Reporting Model Improvements*

The Governmental Accounting Standards Board has issued GASB No. 103 to to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and asserting a government's accountability.

The requirements of this Statement are effective for reporting periods beginning January 1, 2026.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2026 financial statements.

BAKER TILLY, LLP'S COMMENTS ON MANAGEMENT RESPONSES

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