

**MILWAUKEE COUNTY**

Milwaukee, Wisconsin

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE  
AND MANAGEMENT

As of and for the Year Ended December 31, 2013

# COUNTY OF MILWAUKEE, WISCONSIN

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**LETTER 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, 2013, in accordance with auditing standards generally accepted in the United State of America, we considered its internal control over financial reporting (internal control) to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, and not to provide assurance on the internal control.

However, during our audit we became aware of several 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 letter does not affect our report, dated July 31, 2014, on the 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.

We will review the status of these comments during our next engagement. 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 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 Virchow Krause, LLP*

Milwaukee, Wisconsin  
July 31, 2014

**OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**

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## TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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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 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 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:
  - > Identify types of potential noncompliance.
  - > Consider factors that affect the risks of material noncompliance.
  - > Design tests of controls, when applicable, and other audit procedures.

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## TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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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 *Government Auditing Standards*, 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, 2013 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?

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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)**

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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](mailto:John.Knepel@bakertilly.com), the engagement senior manager, Steven J. Henke, at 414.777.5342 or email at [Steven.Henke@bakertilly.com](mailto:Steven.Henke@bakertilly.com) or the engagement manager, Paul Frantz at 414.777.5506 or email at [Paul.Frantz@bakertilly.com](mailto: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**

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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 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 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.

### **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.

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**COUNTY-WIDE MATTERS (cont.)**

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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.

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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.

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**OFFICE OF THE COMPTROLLER (cont.)**

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**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 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.

**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 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.

**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.

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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.

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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.

***DAS – Human Resources Division’s 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.

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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.

### **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 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.



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## **INFORMATION MANAGEMENT SERVICES DEPARTMENT (“IMSD”) (cont.)**

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### **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.

### **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.

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**INFORMATION MANAGEMENT SERVICES DEPARTMENT (“IMSD”) (cont.)**

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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.

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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.

### **Benefit Payments**

During the audit of benefit payments, it was discovered that COLA benefits were being calculated incorrectly due to the COLA benefit beginning on the original retirement date of the retiree as opposed to the backDROP date. It was also noted that several retiree benefit payments were being calculated incorrectly due to incorrect options being utilized, incorrect COLA calculations and incorrect retirement dates used. The engagement team brought these variances to the attention of management who subsequently adjusted the monthly payment amounts. Furthermore, management communicated to the audit team that service credit buybacks were being authorized to individuals who were not eligible to buyback service credits. This resulted in the overpayment of benefits to approximately 200 retirees.

Through communications with various ERS staff members, it has been expressed to Baker Tilly that the ERS staff will conduct a multi-layer review of each and every new benefit calculation. 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.

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

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### **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.

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

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

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**User Account Access Review (cont.)**

- 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

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**PRIOR YEAR COMMENTS ADDRESSED IN THE CURRENT YEAR**

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The following comments were included in last year's report and were addressed during 2013:

1. Office of the Comptroller – External Financial Reporting
2. County-Wide Matters – Time Sheet Approval
3. Office of the Comptroller – Construction in Progress
4. Department of Administrative Services – Procurement Division – Purchase Card Policy
  - a. Documentation of Preauthorization
  - b. Cancellation of Terminated Employee Cards
5. Employees' Retirement System
  - a. Risk Assessment
  - b. Actuarial File
6. Ethics Board – Statement of Economic Interest Forms

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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 (cont.)**

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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.



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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 (cont.)**

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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 (cont.)**

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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.

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## **NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)**

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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.

### **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.

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## **NEW AUDITING STANDARDS REVISIONS**

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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.

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**BAKER TILLY VIRCHOW KRAUSE, LLP'S COMMENTS ON MANAGEMENT RESPONSES**

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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.