

MILWAUKEE COUNTY

Milwaukee, Wisconsin

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2016

COUNTY OF MILWAUKEE, WISCONSIN

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REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE

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

In planning and performing our audit of the financial statements of the County of Milwaukee, Wisconsin (the "County") as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United State of America, we considered the County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

The County's written responses to the matters identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses; however we have evaluated management's responses in accordance with Section A.1. of the Guidelines Regarding Resolution of Audits approved by the Audit Committee.

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

Baker Tilly Virchow Krause, LLP

Milwaukee, Wisconsin
July 31, 2017

OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE

TWO WAY COMMUNICATION REGARDING YOUR AUDIT

As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they have been implemented. We will use such knowledge to:
 - > Identify types of potential misstatements.
 - > Consider factors that affect the risks of material misstatement.
 - > Design tests of controls, when applicable, and substantive procedures.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe 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.

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

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's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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*, the Uniform Guidance, and the *State Single Audit Guidelines*, our report and the report of other auditors will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) 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 and, (c) 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 and the Uniform Guidance and the *State Single Audit Guidelines* in considering internal control over compliance and major program 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, 2016 and for the year then ended completed by the component auditors Wipfli, LLP, Schenck SC, and Reilly, Penner & Benton, LLP, respectively. All necessary conditions have been met to allow us to make reference to the component auditors.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the Board of Supervisors has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements or the federal or state awards?

TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)

Also, is there anything that we need to know about the attitudes, awareness, and actions of the Board of Supervisors and management concerning:

- a. The County's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. All work is coordinated and scheduled with the concurrence of management and staff. If necessary, we may do preliminary financial audit work during the months of October-December, and sometimes early January. Our final financial fieldwork is scheduled during the months of April – July to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your management. This is typically 4-8 weeks after final fieldwork, but may vary depending on a number of factors. The other auditors typically perform the single audit fieldwork concurrent with the timing noted above for the financial audit. After single audit fieldwork, the other auditors wrap up the single audit procedures at their office and then issue drafts of their report for management's review and approval.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

While we work with management and staff in reviewing the financial data and the financial statements, our responsibility is to report to the Board of Supervisors. If you have any questions or comments concerning our audit, please contact your engagement partner, John A. Knepel, at 414.777.5359 or email at John.Knepel@bakertilly.com, the engagement senior manager, Steven J. Henke, at 414.777.5342 or email at Steven.Henke@bakertilly.com or the engagement senior manager, Paul Frantz at 414.777.5506 or email at Paul.Frantz@bakertilly.com. We welcome the opportunity to hear from you.

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

COUNTY-WIDE MATTERS

Petty Cash

During our review of petty cash, we noted two departments that were not in compliance with Ordinance Code 15.17 and had petty cash amounts on hand greater than the authorized imprest fund amount. We recommend that departments monitor these balances and make transfers as necessary, to ensure the petty cash balance is at the appropriate amount.

Office of the Comptroller – Audit Services Response

Audit Services reviewed the circumstances relating to the two departments involved. In one case, the excess amount was minimal. In the second case, the Parks Department delayed transferring cash from its checking account to the Treasurer as required by Ordinance, in part to meet its extended seasonal needs (e.g. beer gardens, golf courses, etc.).

Parks management informed us it is taking steps to ensure compliance with the Ordinance going forward, including submitting a request to modify the Ordinance in order to align its authorized seasonal petty cash funding levels and periods with the expanded demands of Parks operations.

Tips

During our review it was noted that tips are never requested or encouraged but several employees such as beverage cart drivers, beer garden and concession stand/golf clubhouse restaurant employees are receiving tips. There is currently no mechanism in place to monitor these tips and therefore amounts received are not being reported on individual W-2's. We recommend that the process be evaluated so tips can be properly reported on employee W-2's.

County Response

The Office of the Comptroller (Payroll Manager) is meeting with the HR – Compensation and the Parks Department to discuss the issue of tips. This meeting is scheduled for the week of August 21, 2017. We will be discussing if tips should be accepted at all, and if they are, what will be the process for reporting them. We are examining creating a new pay code that employees will be able to enter into the time and attendance system to report their tips.

OFFICE OF THE COMPTROLLER

Vacation Accrual

During our review of compensated absences, it was noted that the report that was used to calculate accrued vacation payable only included the entitlements in place at the beginning of the year and factored out any vacation used during this year. The hours that were not included in the year end calculation were additional hours for any employee with mid-year entitlements or entitlements for those employees that started during the year. We recommend that the Office of the Comptroller and Payroll work together to obtain a report that captures the full vacation hours at year end.

Office of the Comptroller Response

The Payroll Manager met with the external auditors and discussed the mid-year entitlements during their review. It was decided that a column will be added to the report going forward containing mid-year entitlements, which will be provided to the external auditors and the Central Accounting staff.

Trust and Agency Accounts

During 2016, the responsibility of monitoring the County's Trust and Agency accounts was shifted to the Audit Services Division. Year end procedures generally involve certifying and reconciling the balances reported by each department to the amounts reported in the general ledger. This process was not completed at year end. We recommend that the Audit Services Division create procedures to be able to certify the reasonableness of the amounts recorded in the general ledger and follow-up on any discrepancies.

Office of the Comptroller – Audit Services Response

Procedures have been developed and will be carried out for year-end 2017.

BEHAVIORAL HEALTH DIVISION

Patient Receivable

During 2016, we identified the County's Behavioral Health Division did not have a process in place to reconcile a detailed listing of patient receivable to the general ledger. Ideally, at the end of each accounting period the receivable balance reported in the general ledger should be reconciled to a detailed, aged list of individual billings. This detail list should be reviewed with further collection procedures or write-offs made as appropriate. At a minimum, we recommend that a detailed list be reconciled as of year end to the general ledger. Furthermore, during our testing we identified a number of outstanding patient receivables that were either inappropriately included or excluded from the year end balance. We recommend that the County evaluate the cutoff procedures related to the patient receipt transactions to make sure activity is reported in the appropriate accounting period.

Behavioral Health Division (BHD) Response

BHD has developed a process to reconcile the receivable balance in the general ledger to individual billings at year-end. BHD is in the process of assessing the internal control benefits of completing the reconciliation process monthly, quarterly, or annually. Upon completion of this analysis the reconciliation process will be implemented and completed in accordance with the approved time increment. The reconciliation process was discussed and deemed acceptable by Baker Tilly during the 2016 year-end audit.

BHD has reviewed its receivable cut-off procedures and has developed processes to ensure activity is recorded in the proper accounting period. The revised procedures will be implemented by September 30, 2017.

INFORMATION MANAGEMENT SERVICES DIVISION (“IMSD”)

IT Audit Scope

In support of the Milwaukee County Financial Statement Audit conducted, 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 identified by the IT auditor. The audit is based on 15 IT general controls grounded on the COBIT framework, ISO standards, and IT Infrastructure Library (ITIL) best practices. Baker Tilly identified the following in scope financial systems:

- Advantage
- SCRIPTS
- Ceridian
- V3
- Advantage Reporting Database

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.

Network Security

Security practices at Milwaukee County are not fully documented. Existing policies and procedures need to be refined to reflect the current IT environment in place. We recommend that IMSD formalize a Network Logging and Monitoring Policy. In addition to the roles and responsibilities of the Network Security Team, the policy should describe the various logs being reviewed and any configured alerting. Lastly, the Network Logging and Monitoring Policy should be reviewed on at least an annual basis for adequacy and relevance.

IMSD Response

Once the Information Security Manager position is filled, one of the first priorities will be the creation of a network event log monitoring and incident management policy.

IMSD is currently negotiating with a Managed Security Service Provider (MSSP) to document and execute a Statement of Work (SOW) for Network device and server logging and monitoring services. Based on mutual acceptance, approval of the Milwaukee County Board of Supervisors to execute the contract and signing of the SOW, the details around specific device logs, roles, responsibilities, frequency, etc. will be solidified. The goal is to have this service in place by Q1 of 2018, along with a process for annual review.

INFORMATION MANAGEMENT SERVICES DIVISION (“IMSD”) (cont.)

Disaster Recovery

During our review, we noted that there was no formal Disaster Recovery (DR) Plan for the mainframe. As formal DR testing and simulations have not been performed, IMSD is unable to confirm their ability to fully recover legacy systems. We recommend in the short term that IMSD continue the transition to disk backups and phase out legacy backup tapes. In addition, for the long term, we recommend that IMSD continue to move forward with the funded project to migrate the mainframe to the cloud. As a part of the project, management should build a formalized Disaster Recovery Plan. Key items to include in the plan are as follows:

- Recovery time objective
- Recovery point objective
- The priority of systems to get restored to production functionality
- Responsibilities of those involved with the DR process
- Key contact information about personnel with DR responsibilities

Lastly, once implemented IMSD should test and verify disaster recovery capabilities. We recommend that this test be performed annually and that the Disaster Recovery Plan be reviewed and updated based on the results of the test.

IMSD Response

IMSD is in the process of receiving approval from the Milwaukee County Board of Supervisors to execute a contract with IBM for Maintenance-as-a-Service (MfaaS); the contract with IBM will include back up and DR services. IMSD is working diligently to expedite the transition to MfaaS and anticipates that migration will be complete by end of Q4, 2017. IMSD is working closely with IBM to develop a backup procedure with digital backup imaging to a remote site. This formal DR plan is anticipated to be available on January 1, 2018.

IMSD with IBM will perform a DR test by Q4 2018. After the test IMSD will review and update the Disaster Recovery (DR) Plan based on the results.

INFORMATION MANAGEMENT SERVICES DIVISION (“IMSD”) (cont.)

Vendor Risk Management

V3 and Ceridian (Dayforce) application owners do not formally review or map user control considerations from the respective Service Organization Control (SOC) reports on an annual basis. We recommend that application owners collaborate with IMSD to develop a vendor risk management program that helps support system and contract management. The program should include and detail the following:

- Functional responsibilities
- Responsibilities for managing the various vendors
- The process for reviewing the SOC reports
- Assessing the impact of identified control deficiencies and user control consideration

Upon completion of a SOC report review management should document their acceptance of risk or include a detailed corrective action plan.

IMSD Response

Business partners will work with IMSD to develop a Vendor Risk Management program for applications “owned” by the business unit. IMSD will assist with the support and contract management of third party Information Technology (IT) systems. IMSD will work with the business units to design a program that will address the functional responsibilities, responsibilities for managing vendors, process for reviewing SOC reports, and assessing the impact of identified control deficiencies and user control considerations. The vendor risk management framework will be in place by Q1 of 2018.

EMPLOYEES' RETIREMENT SYSTEM

Participant Contributions

(Repeated comment since 2015 report)

During our testing of the accuracy of the employee contribution amounts, we noted several participants did not have contributions based on wages that management had indicated were "pensionable" earnings, due to differences between Retirement Plan Services and the payroll department's definition of "pensionable" earnings.

It is important that the Plan's staff members work with departments that support their processes to ensure that the Plan follows internal and external requirements.

Employees' Retirement System Response

Retirement Plan Services is working with Payroll and the Comptroller's Office to resolve the differences between what is considered pensionable for FAS in the retirement calculation, and what payroll calculates for contributions.

Benefit Payments

(Repeated comment since 2010 report)

During the audit of benefit payments, it was noted that several retiree benefit payments were being calculated incorrectly due to incorrect pay periods, incorrect COLA calculations or incorrect service factors. The engagement team brought these variances to the attention of management who subsequently adjusted the monthly payment amounts.

Through communications with various Plan staff members, it has been expressed to Baker Tilly that the Plan's staff will conduct a multi-layer review of each and every new benefit calculation. We continue to recommend that the Plan 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 the Plan's staff to monitor the progression of this implementation.

Employees' Retirement System Response

All benefit payments have been corrected that were discovered within the financial audit. Retirement Plan Services works diligently on each and every benefit calculation to eliminate errors.

EMPLOYEES' RETIREMENT SYSTEM (cont.)

Fixed Assets

During the audit of other assets, it was noted there was a change in furniture lives used from 2015 to 2016 for depreciation purposes. Between these two periods, lives for furniture increased from ten years to twenty years. The total is not material to the basic financial statements as a whole, but according to the Modified Accelerated Cost Recovery System (MACRS), office furniture and fixtures typically have a class life of seven years.

Baker Tilly recommends furniture lives are set to be more in line with the typical life for their class of assets. As MACRS provides a reference for what should be used, BT would recommend the life should be set to a comparable value to the seven years used by MACRS.

Employees' Retirement System Response

In 2016, Retirement Plan Services noticed that new furniture was being depreciated over 10 years, but all previous furniture was depreciated over 20 years, thus the 2015 assets were adjusted to 20 years. Further, the 2016 new assets for furniture were also depreciated over 20 years. This was done to keep consistency within the assets categories. It should further be noted that Retirement Plan Services, and the County in general, keep their assets longer than the average business.

Mandatory Withdrawals

While testing benefit payments, it was noted that there were several participants that were required to take mandatory withdrawals selected for testing. Upon further investigation and recalculation of the benefit payment with Retirement Plan Services personnel, it was noted there are internal discussions as to the appropriate method of interest calculation on the benefit payment. Retirement Plan Services calculates simple interest; while the Ordinance requiring mandatory withdrawals does not clearly state which method should be used.

Baker Tilly did not consider these withdrawals to be exceptions, as Retirement Plan Services has been consistently applying the simple interest method, in accordance with their interpretation of the Ordinance. However, Baker Tilly recommends that Retirement Plan Services management and the Pension Committee review the Ordinance and take the appropriate next steps to provide clarity, and updates (if necessary) to the calculations.

Employees' Retirement System Response

The Pension Board is reviewing options and processes to clarify interest rates and calculations, and it is expected that clarification will be forthcoming in the next couple of months.

EMPLOYEES' RETIREMENT SYSTEM (cont.)

Internal Controls and Fraud Risk Discussions

During the audit, it was noted in discussions with management and Plan personnel, there is not a formal process for department personnel to meet and discuss proper preventive internal controls, areas that are subject to potential internal control failures, as well as potential fraud risks relating to the Plan.

As a best practice, Baker Tilly recommends management meet annually to discuss these items. These meetings may function as brainstorming sessions for department personnel to voice suggestions to management, who can assess the risks and controls for adequacy in the internal control environment of Retirement Plan Services.

Employees' Retirement System Response

Controls and processes are discussed at weekly management meetings. A formal division-wide meeting on this sole topic will be added to the mandatory meeting schedule to ensure proper input and review from the entire Retirement Plan Services team.

PRIOR YEAR COMMENTS ADDRESSED IN THE CURRENT YEAR

The following comments were included in last year's report and were addressed during 2016:

1. Office of the Comptroller - Retainages
2. Human Resources Department – New Hire Policy
3. Information Management Services Department
 - a. Physical Security
 - b. Patch Management
4. Employee Retirement System
 - a. Terminated Employees
5. New Accounting and Reporting Requirements
 - a. GASB 72
 - b. GASB 73
 - c. GASB 76
 - d. GASB 77
 - e. GASB 78
 - f. GASB 79

DEPARTMENTAL CONTROLS

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

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

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

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

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

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

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

Office of the Comptroller Response

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

NEW ACCOUNTING AND REPORTING REQUIREMENTS

GASB No. 74: Financial Reporting for Postemployment Benefit Plans Other than Pension Plans

The Governmental Accounting Standards Board has issued GASB No. 74 which establishes financial reporting requirements for postemployment benefit plans other than pension plans. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. The scope of this Statement includes OPEB plans, both defined benefit and defined contribution, administered through trusts that meet certain criteria.

The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016.

Office of the Comptroller Response

Since the County does not contribute to a separate OPEB plan, GASB 74 applies only to Transit. The Office of the Comptroller will work with Transit to review the requirements of these statements and they will be reflected in the financial reports for the year ending December 31, 2017. Any necessary training to implement this item will be pursued.

GASB No. 75: Accounting and Financial Reporting for Postemployment Benefits Other than Pensions

The Governmental Accounting Standards Board has issued GASB No. 75 which establishes accounting and financial reporting requirements for postemployment benefits other than pensions that are provided to the employees of state and local government employers. The objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. This Statement replaces Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*. In the scope of this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet certain criteria.

The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017.

Office of the Comptroller Response

The Office of the Comptroller will work with Retirement Plan Services and Transit to review the requirements of these statements and they will be reflected in the financial reports for the year ending December 31, 2018.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 80: Blending Requirements for Certain Component Units

The Governmental Accounting Standards Board has issued GASB No. 80 which improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2017 financial statements.

GASB No. 81: Irrevocable Split-Interest Agreements

The Governmental Accounting Standards Board has issued GASB No. 81 which improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016.

Office of the Comptroller Response

We are not aware of any such agreements but the Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2017 financial statements, if appropriate.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 82: Pension Issues

The Governmental Accounting Standards Board has issued GASB No. 82 which addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements with Retirement Plan Services and Transit and they will be reflected in the December 31, 2018 financial statements.

GASB No. 83: Certain Asset Retirement Obligations

The Governmental Accounting Standards Board has issued GASB No. 83 which addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2019 financial statements.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 84: Fiduciary Activities

The Governmental Accounting Standards Board has issued GASB No. 84 which is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2019 financial statements.

GASB No. 85: Omnibus 2017

The Governmental Accounting Standards Board has issued GASB No. 85 which addresses practice issues that have been identified during implementation and application of certain GASB statements. This statement addresses a variety of topics including issues related to blending component units, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2018 financial statements.

GASB No. 86: Certain Debt Extinguishment Issues

The Governmental Accounting Standards Board has issued GASB No. 86 which is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2018 financial statements.

NEW ACCOUNTING AND REPORTING REQUIREMENTS (cont.)

GASB No. 87: Leases

The Governmental Accounting Standards Board has issued GASB No. 87 which is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2020 financial statements.

INFORMATIONAL POINTS

OTHER POST EMPLOYMENT BENEFIT (OPEB) REPORTING CHANGES ON THE HORIZON

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, addresses reporting by OPEB plans that administer benefits on behalf of governments. GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, addresses reporting by governments that provide OPEB to their employees and for governments that finance OPEB for employees of other governments. The new OPEB standards parallel the pension standards GASB Nos. 67 and 68. Together, the pension and OPEB standards provide consistent and comprehensive guidance for all postemployment benefits.

OPEB plans will implement the new standards beginning with the year end December 31, 2017. Governments that provide OPEB benefits to their employees will need to implement these standards beginning with the year end December 31, 2018.

This standard has similarities to the previous OPEB standards, most notably the definition of an OPEB and the option of the alternative measurement method for small governments. However, the calculation and reporting of the OPEB liability and various required disclosures will change under the new standards, becoming similar to the pension standards.

To implement this standard, your government will need to plan ahead for obtaining a new actuarial study. The selection of a measurement date and timing for the study will be important to consider well in advance of implementation. We are available to further discuss this standard, the timing, and impact on your government.

Office of the Comptroller Response

The Office of the Comptroller will review the requirements and they will be reflected in the December 31, 2018 financial statements.

INFORMATIONAL POINTS (cont.)

PROCUREMENT RULES FOR EXPENDITURES UNDER FEDERAL GRANTS

In December 2013, the US Office of Management and Budget (OMB) issued comprehensive grant reform rules titled "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards." With that issuance, there were important updates made to various areas of federal grants management. Procurement is one of the areas that had significant changes for some entities. In order to allow time for implementation, the procurement rules were given an initial two year grace period, which has now expired. In May 2017, OMB issued guidance that allows a grace period of one additional year. Therefore, you must be compliant with the new guidelines for your 2018 federal awards.

The procurement sections of the Uniform Guidance can be found online in 2 CFR 200.318. Some of the highlights include:

- > Written conflict of interest policies are required
- > The organization must document the procurement steps and activities required to be completed, which includes the basis for the type of procurement, contract type and basis for the contractor selection
- > Procurement must be done in a manner that prohibits the use of geographical preference, except in certain cases
- > The five methods of procurement outlined are:
 - Micro-purchase – purchases where the aggregate dollar amount does not exceed \$3,000 (adjusted by the Federal Acquisition Regulation). No competitive quotes are required if management determines that the price is reasonable. When practical, the entity should distribute micro-purchases equitably among qualified suppliers.
 - Small purchase – includes purchases up to the Simplified Acquisition Threshold, which starts out at \$150,000 but is periodically adjusted for inflation. Price or rate quotes must be obtained from an adequate number of sources.
 - Sealed bids – used for purchases over the Simplified Acquisition Threshold. Formal solicitation is required and the fixed price is awarded to the responsible bidder who conformed to all material terms and is the lowest in price.
 - Competitive proposals – used for purchases over the Simplified Acquisition Threshold when sealed bids are not appropriate. Contracts should be awarded to the responsible firm whose proposal is most advantageous to the program, with price being one of the various factors.
 - Noncompetitive proposals (also known as sole-source procurement) – used only when specific criteria are met. Examples include when a public emergency does not allow time for a competitive proposal process, an item is only available from one source, competition is deemed inadequate after a number of attempts were made, or the federal awarding agency authorizes noncompetitive proposals.

If your organization has not yet evaluated and/or revised your procurement policies for compliance with the requirements under Uniform Guidance, we recommend that you do so as soon as possible. A high level of formal documentation is required to meet the standards. As always, you will need to consider compliance with state requirements as well.

INFORMATIONAL POINTS (cont.)

PROCUREMENT RULES FOR EXPENDITURES UNDER FEDERAL GRANTS (continued)***Procurement Division Response***

Milwaukee County has various departments governed under these provisions. Milwaukee County General Ordinances outline methods and procedures for public procurement generally in compliance with grant purchase thresholds, competitive acquisition process, and conflict of interest.

As advised DAS Procurement will coordinate, with Accounts Payable and departments impacted, an evaluation and the needed administrative changes to our procurement processes to assure compliance with the requirements under Uniform Guidance, by the federal deadline

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

We have evaluated and believe that management's responses included herein are in accordance with Section A.1. of the Guidelines Regarding Resolution of Audits approved by the Audit Committee.