COUNTY OF MILWAUKEE
Inter-Office Communication

Date: March 19, 2014

To: Supervisor Marina Dimitrijevic, Chairwoman
Milwaukee County Board of Supervisors

From: Jerome J. Heer, Director of Audits

Subject: External Quality Review of the Office of the Comptroller's Audit Services Division

Wisconsin State Statute §§ 59.255(i) requires our office to perform our work in compliance with government auditing standards issued by the Comptroller General of the United States. Those standards require that our office undergo a periodic external quality review. The enclosed report represents the results of that review for the period July 1, 2010 through June 30, 2013.

The review was conducted under the auspices of the Association of Local Government Auditors by a team of seasoned professionals from two of the nation's most respected local government audit offices.

We are proud of the fact that the review team has given us a 'clean' opinion. The team also made three observations in its management letter. We agree with the observations and will implement the corresponding suggestions.

Please refer the review to the Finance, Personnel and Audit Committee.

Sincerely,

Jerome J. Heer

Attachments

JJH/cah

cc: Scott B. Manske, CPA, Milwaukee County Comptroller
Chris Abele, Milwaukee County Executive
Supervisor Willie Johnson, Jr., Co-Chair, Committee on Finance, Personnel & Audit
Supervisor David Cullen, Co-Chair, Committee on Finance, Personnel & Audit
Kelly Bablitch, Chief of Staff, County Board Staff
Janelle Jensen, Chief Committee Clerk, Office of the County Clerk

External Quality Control Review

of the

Milwaukee County
Office of the Comptroller
Audit Services Division

Conducted in accordance with guidelines of the

Association of Local Government Auditors

for the period July 1, 2010 through June 30, 2013

Association of Local Government Auditors

March 14, 2014

Mr. Jerome Heer
Director of Audits
Milwaukee County Office of the Comptroller
Audit Services Division
City Campus, 9th Floor
2711 W. Wells Street
Milwaukee, Wisconsin 53208

Dear Mr. Heer,

We have completed a peer review of the Milwaukee County Office of the Comptroller, Audit Services Division for the period July 1, 2010 through June 30, 2013. In conducting our review, we followed the standards and guidelines contained in the *Peer Review Guide* published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with *Government Auditing Standards* issued by the Comptroller General of the United States. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff and management, to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Milwaukee County Office of the Comptroller Audit Services Division's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audit engagements during the period July 1, 2010 through June 30, 2013.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Sincerely,

David A. Schroeder
Office of the City Controller
Audit Division
Houston, Texas

Michael C. Houston
Office of the City Auditor
San José, California

149 Lewis Hargett Circle, Suite 290, Lexington, KY 40503 Phone: (859) 276-0686 Fax: (859) 278-0507
webmaster@nasact.org • www.alga.online.org

Association of Local Government Auditors

March 14, 2014

Mr. Jerome Heer
Director of Audits
Milwaukee County Office of the Comptroller
Audit Services Division
City Campus, 9th Floor
2711 W. Wells Street
Milwaukee, Wisconsin 53208

Dear Mr. Heer,

We have completed a peer review of the Milwaukee County Office of the Comptroller, Audit Services Division for the period July 1, 2010 through June 30, 2013 and issued our report thereon dated March 14, 2014. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- Audit leadership and management have an extensive background in the auditing profession within the public sector, specifically county government, and possess a high level of technical skill and experience.
- The audit organization demonstrates a strong commitment to adding value to all stakeholders and is a trusted and valued resource to county government.
- The audit organization's approach to providing audit services balances cost with benefits in delivering a quality work product that is compliant with professional standards while also identifying and addressing relevant risks within a complex audit environment.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to *Government Auditing Standards*:

- GAGAS 3.83 states that an audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards.

  In performing our review of the quality control system (QCS) documentation and the policies and procedures manual of the Milwaukee County Office of the Comptroller, Audit Services Division, we noted that some areas/sections lacked clarity and did not include guidance related to specific GAGAS requirements (3.85). These areas related to: independence (GAS 3.07-3.08; 3.25-3.26); non-audit services (GAS 2.12); initiating/declining/terminating an engagement (GAS 3.89; A3.10); modifications to audit scope (GAS 6.32-6.35); and communication protocol where certain conditions exist (GAS 7.07; 7.21-7.22; 7.24-7.26).

  The audit organization should update policies and procedures with defined processes, including any relevant documentation to address the areas noted above.

- GAGAS 2.12 defines nonaudit services as *"...professional services other than audits or attestation engagements...."* Therefore, auditors do not report that the nonaudit services were conducted in accordance with GAGAS. Thus a scope of work generally fits the criteria of: (1) audit/attestation or (2) nonaudit service and is then subject to different evaluation elements accordingly.

  For the peer review, the audit organization identified two types of services: performance audits and other services. Projects that were identified as "Other" represented approximately 25% of the hours

that the audit organization charged to specific projects during the peer review period. In performing our testwork, we noted some projects classified as "Other" contained a significant level of effort (hours and procedures), a published deliverable, recommendations and other audit activities. The decision of how to classify a scope of work is up to the audit organization based on the audit objectives, but should be based on documented criteria (e.g., GAGAS and/or policy and procedures). Once the audit organization decides on a classification, the appropriate framework should be applied.

The audit organization should identify and outline parameters for determining how work is classified, in accordance with GAGAS procedures, for the purpose of adhering to specific professional standards,

- GAGAS 3.95 along with supplemental guidance provided in A3.10c requires that:

  "The audit organization should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. The audit organization should communicate to appropriate personnel any deficiencies noted during the monitoring process and make recommendations for appropriate remedial action."

  Part of establishing and maintaining a system of quality control includes monitoring and correction of deficiencies noted, and identifying areas for improvement on an iterative basis. While the audit organization has implemented a QCS monitoring checklist and has sufficient quality elements designed and in place to validate the existence and occurrence of key activities, it does not summarize and formally communicate the results to management for corrective action.

  The audit organization should perform an annual monitoring process whereby they identify systemic issues needing improvement, summarize the results, and make recommendations for appropriate remedial actions and communicate those results to appropriate personnel. This could be achieved by reviewing Section 7 workpapers containing the engagement QCS checklists; validating the existence of QCS elements, considering other items noted during engagement and other management activities. Periodic cumulative reviews of these elements could help them identify patterns that initiate change/updated processes, enhanced P&P, and other opportunities for continuous improvement.

We extend our thanks to you, your staff and the other county officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,

David A. Schroeder
Office of the City Controller
Audit Division
Houston, Texas

Michael C. Houston
Office of the City Auditor
San José, California

Office of the Comptroller
Audit Services Division

Milwaukee County

Jerome J. Heer • Director of Audits
Douglas C. Jenkins • Deputy Director of Audits

March 14, 2014

Mr. David A. Schroeder
City of Houston Controller's Office
Houston, TX 77251

Dear Mr. Schroeder,

On behalf of the entire staff of the Milwaukee County Office of the Comptroller – Audit Services Division, I would like to acknowledge the professionalism and courtesy exhibited by you and Mr. Michael Houston during this engagement. Your review was both comprehensive and thorough. The management team is especially appreciative of the kind remarks expressed in your management letter.

We concur with all suggestions contained in the management letter. Specifically:

- Comment

  In performing our review of the QCS documentation and the policies and procedures manual of the Milwaukee County Office of the Comptroller, Audit Services Division, we noted that some areas/sections lacked clarity and did not include guidance related to specific GAGAS requirements (3.85). These areas related to: independence (GAS 3.07-3.08; 3.25-3.26); non-audit services (GAS 2.12); initiating/declining/terminating an engagement (GAS 3.89; A3.10); modifications to audit scope (GAS 6.32-6.35); and communication protocol where certain conditions exist (GAS 7.07; 7.21-7.22; 7.24-7.26).

  The audit organization should update policies and procedures with defined processes, including any relevant documentation to address the areas noted above.

  Response

  The Audit Services Division will review and update its policies and procedures manual to add clarity with defined processes and relevant documentation requirements sufficient to address each of the specific professional standards identified by the peer review team.

- Comment

  The audit organization should identify and outline parameters for determining how work is classified, in accordance with GAGAS procedures, for the purpose of adhering to specific professional standards.

  Response

  The Audit Services Division will modify its current policy regarding Classification of Work Assignments (Section 2100) to provide a clear and consistent framework for identifying scopes of work as either Audit/Attestation or Non-audit Services. Applicable GAGAS requirements will be followed accordingly. This modification will eliminate the Division's current "Other" category of work classification.

- Comment

The audit organization should perform an annual monitoring process whereby they identify systemic issues needing improvement, summarize the results, and make recommendations for appropriate remedial actions and communicate those results to appropriate personnel. This could be achieved by reviewing Section 7 workpapers containing the engagement QA checklists; validating the existence of QA elements, considering other items noted during engagement and other management activities. Periodic cumulative reviews of these elements could help them identify patterns that initiate change/updated processes, enhanced P&P, and other opportunities for continuous improvement.

Response

The Audit Services Division's current Quality Assurance protocol includes assignment of the Audit Compliance Manager as the lead reviewer on all end-of-project QA Reviews. This provides both consistency and accountability for ensuring adherence to applicable professional standards and division policies and procedures on each engagement. The Audit Compliance Manager meets with the entire Audit Services Division management team on a regular basis to discuss a number of issues including work assignments, project deadlines, staff development, administrative tasks, etc. These regular meetings afford the Audit Compliance Manager the opportunity to discuss QA issues with the other audit managers as well as the Director and Deputy Director of Audits.

The peer review team's suggestions for formalizing and enhancing the Audit Services Division's ongoing efforts to ensure and improve the quality of its reports and activities will be implemented with a specific addition to the Division's policies and procedures manual. The Audit Compliance Manager will prepare a formal summary, as outlined in the peer review team's comments, on an annual basis for review by the management team.

Thank you for your efforts. Your observations and suggestions are constructive and are appreciated.

Jerome J. Heer
Director of Audits

cc: Michael Houston, City of San Jose, CA
Kelly Hammond, Frederick County, MD
Scott B. Manske CPA, Milwaukee County Comptroller

The Association of Local Government Auditors

Awards this

Certificate of Compliance

to

Office of the Comptroller, Audit Services Division
Milwaukee County

Recognizing that the organization's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with *Government Auditing Standards* for audit and attestation engagements during the period July 1, 2010, through June 30, 2013.

Gary S. Chapman
ALGA Peer Review Committee Chair

Bill Greene
ALGA President