

**MILWAUKEE COUNTY**

Milwaukee, Wisconsin

COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE  
AND MANAGEMENT

As of and for the Year Ended December 31, 2014

# COUNTY OF MILWAUKEE, WISCONSIN

## TABLE OF CONTENTS

---

	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
Other Communications to Those Charged with Governance	
Two Way Communication Regarding Your Audit	2
Communication of Other Control Deficiencies, Recommendations and Informational Points to Management that are not Material Weaknesses or Significant Deficiencies	
County-Wide Matters	5
Office of the Comptroller	6
Department of Administrative Services – Procurement Division	8
Department of Administrative Services – Human Resources Division	9
Information Management Services Department	10
Prior Year Comments Addressed in the Current Year	16
Departmental Controls	17
New Accounting and Reporting Requirements	18
Auditing Standards Revisions	22
Informational Points	23
Baker Tilly Virchow Krause LLP’s Comments on Management Responses	25

**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, 2014, 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.

A separate Report on Internal Control was issued to the Pension Audit Committee of the Employees' Retirement System of the County of Milwaukee. The information contained in that report is not included with this report.

Our consideration of internal control was for the limited purpose described in the first 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 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, 2015

**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 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, 2014 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 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**

---

## COUNTY-WIDE MATTERS

---

### **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***

A workgroup consisting of representatives from the Office of the Treasurer, Office of the Comptroller and the Audit Services Division will pursue the development and implementation of a process which will include education and monitoring aspects to ensure departmental accounting personnel make timely entries to the Advantage Accounting System. In addition, any material reconciling items during the year end closing process will be reviewed to confirm their source and accuracy.

### **Miscellaneous Cash Accounts**

Our review of the cash and investment accounts we noted a bank account which is part of the County's reconciliation process performed by the Audit Services Division but does not have a corresponding general ledger account. We recommend that all bank accounts be recorded within advantage in a timely manner to ensure accurate financial reporting.

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

A general ledger account has been identified and will be opened for this bank account so that it will be included in the Advantage accounting system for financial reporting. Procedures will be developed to monitor that departments obtain general ledger accounts timely for all applicable new bank accounts.

---

**OFFICE OF THE COMPTROLLER**

---

**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***

Responsibility for processing electronic funds transfers (EFTs) is now split between the Office of the Treasurer (payments to governmental entities) and the Office of the Comptroller – Accounts Payable Division (payments to vendors). These two offices review electronic transfer documents to ensure they contain two required signatures before processing; the signature of the individual preparing the documents and that of an authorized member of management, who cannot also sign as preparer.

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

We noted that approximately 51 adjusting journal entries were made subsequent to April 20, 2015 relating to the 2014 financial statements, which is a significant improvement in the number of entries that were made during the 2013 audit. However, 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 2014 budget surplus calculation. Continued emphasis and the enforcement of individual department's compliance with the year-end closing calendar may help to improve this process.

***Office of the Comptroller Response***

The Office of the Comptroller continues its efforts toward improvement in respect to the expediting the closing and financial reporting process. These efforts include, in addition to measures for improving external departments' compliance with the year-end closing calendar, fully implementing the Caseware Working Papers software program, which will ultimately provide for greater automation of the CAFR reporting process and increased efficiency for lead accounting staff.

**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, 2013 and 2014, which were determined not to be material to the financial statements taken as a whole. However, we recommend that the County begin recording this activity in the County's records for 2015 and beyond.

***Office of the Comptroller Response***

For 2014, the County reviewed the reports on CLTS and determined, along with Baker Tilly, that any entry for CLTS was immaterial to the financial statements.

We will review reports on CLTS for the 2015 close and determine the materiality of posting any entry for that year.

**Duplication of Capital Asset Additions**

During our review of capital assets, it was noted that there were duplicate additions recorded by the fleet department and the office of the comptroller. These duplications were immaterial in nature, but highlighted the lack of procedures / controls in evaluating the activity recorded by other departments related to capital assets. We recommend that the County add a procedures / controls to evaluate each department's capital asset activity (additions and deletions) to verify that no duplication exist each year.

***Office of the Comptroller Response***

The review indicated duplication of a single Parks Department asset, an ATV valued at \$13,199 that had been recorded by both the Fleet Management Division and the Comptroller's Office. This single duplication occurred as a result of a change in recording responsibility. In the past, Parks' assets were recorded by the Comptroller's Office. In 2014, Fleet Management began to record these assets. The Comptroller's Office has removed the ATV asset from its listing. In order to avoid duplication in the future, the Comptroller's Office will coordinate the asset addition process for the Parks Department with Fleet Management.

---

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

---

**Travel Card Purchases**

During our testing of travel card purchases, we identified one transaction with no approval. We recommend that the County re-evaluate the controls in this transaction cycle to verify that all purchases are approved by someone other than the purchaser. As part of that approval process, supporting documentation should be obtained and reviewed and the approval documented.

***DAS – Procurement Division’s Response***

The transaction identified involves an elected official, who in a statutory office does not report to another position within County government for travel approval. Consequently, the Procurement Director will confer with the Office of the Comptroller in addressing this issue.

---

**DEPARTMENT OF ADMINISTRATIVE SERVICES (“DAS”) – HUMAN RESOURCES DIVISION**

---

**New Hire Policy  
(Repeated comment since 2013 report)**

During our testing of internal control procedures related to new hires, 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 identified data integrity and internal control problems with respect to HRIS data entry. We eliminated the paper ETCR form, having discovered over ten different versions of it were being utilized across the County, and began replacing it with a standardized electronic Personnel Action Form (PAF) in June 2015. The process includes a passive approval by managers to ensure accuracy. In addition, we are finalizing an audit of Countywide HRIS system access and will be facilitating the removal of edit access from more than 40 County employees. We are also centralizing all PAF data entry within central Human Resources, to ensure greater controls over the quality and accuracy of our data. As of July, 2015, the process of New Hires, Rehires, and Terminations are centralized in Human Resources through the new PAF. All former processes involving HRIS system entry will be centralized by December, 2015.

---

## INFORMATION MANAGEMENT SERVICES DEPARTMENT (“IMSD”)

---

### Change Management

During our review of change management, we identified one change ticket in which the same individual had signed off under all phases of the change management process, including submission, planning approval, implementation, review and close. Additionally, it was noted that developers have ability to and often migrate their own changes to the production environment due to resource limitations. We suggest that Milwaukee County continue to formalize the change management process to ensure all necessary approvals take place at each phase of the change cycle and that approvals are captured in Manage Engine for audit purposes. Within the SDLC and Change Management process, the roles of "developer/change requester", "approver of a change" and "migrator of a change into production/implementer" should always be segregated to help prevent unauthorized changes being pushed to the production environment. There are detective control measures that can be utilized should an organization have weak or informal preventative control measures. Detective change management control measures include enabling database change logs, which can be periodically reviewed to identify any unauthorized changes. These logs could also be compared to approve change requests, if such requests are retained, to help further identify any unauthorized changes and ensure all authorized changes were executed appropriately. Documentation of this review should be retained for audit purposes.

#### *IMSD's Response*

IMSD continues to formalize the Change Management process and grow in maturity. The process was recently revised in March 2015 and improvements made. This revised process includes an approval from the respective manager of the change agent during the planning stage and prior to submission to the full Change Advisory Board (CAB). Once approval is provided by the manager, the manager then forwards the change to the full CAB. The plan is reviewed by each CAB member and provided the change record is thorough, each CAB member marks the change as approved. The CAB then reviews the change once again at the weekly CAB meeting. At the weekly CAB meeting following the change implementation date, the change is reviewed once again for success, failure, and/or back out. All of these steps and approvals are automated and captured within Managed Engine. IMSD will continue to mature in its change management practice and will begin metric reporting by Q4 2015.

At the outset of this review, IMSD will begin looking into the effort required to enable detective change management control measures as the small size of our organization prohibits further segregation of duties. This will allow IMSD to review database change logs against change records to ensure compliance.

---

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

---

### **Physical Security – Data Center (Repeated comment since 2012 report)**

In previous years prior to 2014, Milwaukee County had not reviewed the listing of employees that have access to the data center. In the current year, a review was initiated however, it did not allow for timely access removal of identified unauthorized user's. Additionally, there is currently no formalized 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***

IMSD's Main frame operations manager regularly receives a list of authorized personal from the facility owners, the City of Milwaukee. This list is reviewed to ensure that there are no unauthorized personal. Our experience is that it has been found to be correct and in actual fact has been static for a number of years. IMSD must further explore options with the City of Milwaukee regarding the periodic generation of daily access reports. The City has not, in the past, cooperated with our request. This issue will be escalated until cooperation is received. It is our intent to have a process implemented by year end.

### **Resource Alignment (Repeated comment since 2013 report)**

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***

In the 2015 Budget IMSD created an IT Manager (Security and Continuity) position which will be ultimately responsible for aligning IMSD on security roles, requirements and processes. IMSD has been actively recruiting and HR has posted this and 3 other key IT positions. The IT Manager (Security and Continuity) will be tasked with the implementation of an Information Security Management Program (ISMP) which will look to address information security related risk within Milwaukee County as well as develop roles, responsibilities of IMSD staffers, controls, process, policies and activities. Implementing the ISMP is an ongoing effort that will span multiple years, however, as it has been difficult to fill this vacancy, IMSD will continue to align IMSD employees on temporary roles and operating in a more secure manner by the end of 2015.

### **Access Violation Monitoring**

While Milwaukee County has implemented a Cisco CX IPS (Intrusion Prevention System) in 2014 and threat analysis reports are manually reviewed weekly, we could not obtain evidence of the weekly review process. There is not a formal process in place for tracking security issues identified through to resolution. Currently, firewall logs are reviewed on an as needed basis for diagnostic purposes. We suggest that a formal Incident Response process be established for responding to, escalating and tracking critical / high risk vulnerabilities identified by IPS report monitoring. Additionally, we suggest that a formalized policy and procedure be created for monitoring, addressing, and tracking critical / high risk firewall violations.

#### ***IMSD’s Response***

IMSD has since implemented a weekly review and sign off for IPS violations as follows:

IMSD Connectivity manager reviews the IPS violation report weekly. On Monday morning, the manager logs in to Cisco PRSM and generates a Threat Analysis report for the “last 7 days”. This is printed. Each violation category is reviewed to determine if this is an actionable item.

Specifically, we are most concerned with violations on the policy “Allow Access to Internal Networks”, as this policy is the one that allows access from Internet hosts to designated servers in the internal and DMZ networks. The remaining policies are much less important as they deal with traffic flowing from our networks to the Internet. Our experience with this IPS product is that many false positives are generated by normal innocuous user traffic in the outbound direction.

If any violations are of concern, a service desk ticket is created and assigned to the Connectivity team for further review.

After the review is complete, the network manager initials each page of the report, signs and dates the final page, scan the report to PDF and store on the network file share at <removed for security purposes>.

As part of the ISMP, a formal incident response process and procedure will be established to include the timely response and resolution to critical incidents.

---

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

---

**User Account Management – Advantage, Active Directory and Scripts  
(Repeated comment since 2013 report)**

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***

When an employee or contractor leaves employment with Milwaukee County, IMSD disables employee/contractor network access immediately upon notification. Departments may not notify IMSD in a timely fashion of said terminations so IMSD, weekly ran a termination report. As a result of recommendations of Baker and Tilly, IMSD is initiating a process where, daily, a termination report is run and action is taken based on that report. The daily report will be used as a checks and balances mechanism. It should be noted that most users are disabled as they leave employment with Milwaukee County. A more robust process involves an enterprise policy on employee separation is not the sole responsibility of IMSD. IMSD is currently in conversations with HR and relevant parties to develop a more timely process for these activities. One of the outcomes of this work will be a documented, measurable, and repeatable process regarding account management.

When an employee or contractor leaves employment with Milwaukee County, IMSD disables employee/contractor network access immediately upon notification. Departments may not notify IMSD in a timely fashion of said terminations so IMSD, weekly ran a termination report. As a result of recommendations of Baker and Tilly, IMSD is initiating a process where, daily, a termination report is run and action is taken based on that report. The daily report will be used as a checks and balances mechanism. It should be noted that most users are disabled as they leave employment with Milwaukee County. A more robust process involves an enterprise policy on employee separation is not the sole responsibility of IMSD. IMSD is currently in conversations with HR and relevant parties to develop a more timely process for these activities. One of the outcomes of this work will be a documented, measurable, and repeatable process regarding account management.

---

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

---

**User Account Management – Vitech (V3) and Ceridian**

The user account management process for creating new users, modifying existing users, and terminating users, is performed informally via email. The access approvers are often also provisioning the requested access. We suggest that controls be designed to establish a centralized Identity Management process. Milwaukee County Payroll and Human Resources departments should consider leveraging the Milwaukee County help desk to ensure all access requests and approvals to these applications are tracked for audit purposes. Additionally, controls should allow for segregation of duties between the individual approving an access request and the individual provisioning the access.

***Payroll Division Response***

Payroll Division management will initiate that all requests for access go through IMSD helpdesk for all Ceridian products. The process for granting access must follow that request come from manager or supervisor of individual. Time and Attendance access is approved by payroll manager and then assigned by payroll supervisor or payroll system coordinator. HR/Payroll access is requested by employee manager or supervisor. Payroll Manager then receives approval from Comptroller or Chief HR Officer. Once approval is given then access is granted by Payroll System Coordinator.

***Human Resources Division Response***

The initial V3 access request comes from manager or supervisor of individual. This request is sent to ERS Operational Manager or ERS Director and then assigned to the Retirement Information Systems Analyst included with any restrictions to the individual’s access to the V3 system.

**User Account Access Review – Vitech (V3)**

While Milwaukee County began formalizing an annual user access review for the Vitech (V3) pension system in February 2015, we noted there was not an access review completed in 2014. We suggest that the Vitech (V3) user access review continue to be formalized to include identification of any segregation of duties conflicts within the application, as well as, cleanup of terminated accounts that were potentially missed during the year. All denied access should be revoked timely, and changes made as a result of the review should be retained for audit purposes.

***Human Resources Division Response***

Retirement Information Systems Analyst logs all requests and retains request and approval.

---

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

---

**User Account Access Review – Ceridian**

Access review evidence and approval was not retained for audit purposes: therefore we could not view evidence that the access review was completed for 2014. We suggest that evidence of Ceridian user access review be retained for audit purposes. All denied access should be revoked timely, and changes made as a result of the review should be retained for audit purposes.

***Payroll Division Response***

Payroll has begun keeping a log of all requests and approvals for access to the Ceridan system. The list will be retained as a departmental record.

---

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

---

The following comments were included in last year's report and were addressed during 2014:

1. County-Wide Matters – Internal Service Fund Deficit
2. Office of the Comptroller
  - a. Trust and Agency Funds
  - b. Journal Entry Approval
3. Department of Administrative Services – Procurement Division – Purchase Card Policy
4. New Accounting and Reporting Requirements
  - a. GASB No. 67
  - b. GASB No. 69
  - c. GASB No. 70

---

## **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. 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 Employee Retirement System management are working in conjunction with Baker Tilly to ensure that these reporting requirements are met for December 31, 2015.

---

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

---

**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.

**GASB No. 72: Fair Value Measurement and Application**

The Governmental Accounting Standards Board has issued GASB No. 72 which is to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statement for periods beginning after June 15, 2015.

***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, 2016.

---

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

---

**GASB 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**

The Governmental Accounting Standards Board has issued GASB No. 73 which establishes accounting and financial reporting requirements for defined benefit pensions that are not within the scope of Statement No. 68 as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. The Statement also amends certain provisions of Statements No. 67 and No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of this Statement that are for pensions that are not within the scope of Statement No.68 are effective for financial statements for fiscal years beginning after June 15, 2016. The requirements of this Statement for pension plans that are in the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015.

***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, 2016.

**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***

The Office of the Comptroller will review the requirements of this statement and implement them accordingly beginning with the year ending December 31, 2017.

---

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

---

**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 review the requirements of this statement and implement them accordingly beginning with the year ending December 31, 2018.

**GASB No. 76: The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments**

The Governmental Accounting Standards Board has issued GASB No. 76 which establishes the hierarchy of generally accepted accounting principles (GAAP) for state and local governments. The GAAP hierarchy consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No.55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015 and should be applied retroactively.

***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, 2016.

---

## AUDITING STANDARDS REVISIONS

---

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

As reported to you in the past, the U.S. Office of Management and Budget (OMB) issued comprehensive grant reform rules titled “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” which affect federal awards issued after December 26, 2014. Therefore, the new federal awards and funding increments you receive in 2015 will be subject to these rules.

The grant reform is intended to streamline the guidance on administrative requirements, cost principles, and audit requirements for federal awards. The uniform guidance superseded 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 impacting many governments include payroll reporting, subrecipient monitoring, procurement, indirect costs, and various changes to the allowability of certain costs. It is important for management to perform a comprehensive analysis of the new rules to determine what changes may be necessary to ensure your compliance. Visit our website at [www.bakertilly.com/grantreform](http://www.bakertilly.com/grantreform) for additional resources or call us with your questions.

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

The Comptroller's Office will pursue training on grants management that covers recent changes to management of federally awarded funds. In addition, we will inform staff in other County departments about the need for and availability of this training.

---

## INFORMATIONAL POINTS

---

### **Cyber Risk**

Information security is a growing concern for many organizations and is no longer considered to be strictly an Information Technology (IT) issue. If your government is the victim of a security breach, the impacts can be financial, operational, and reputational. Cyber risk should be a high priority and evaluated on a regular basis.

Security breaches can come in a number of forms, which are constantly evolving with advances in and increased use of technology. It is important for governments to assess what types of information they have that would be vulnerable to cyber-attack. Does your organization process, collect, and/or store personal information about employees or customers? Information related to social security numbers, bank accounts, addresses, medical information, birth dates, and credit cards is common for governments. It is important to take inventory of all of the personal information that flows through your systems in order to properly secure your data.

Certain types of personal information are required to be protected in prescribed ways. If you are required to comply with the Health Insurance Portability and Accountability Act (HIPAA) or Payment Card Industry Data Security Standards (PCI DSS), there should be a designated individual within management that should be familiar with and oversee compliance in these areas.

Outsourcing portions of your data processing can remove personal information from your system; however, outsourcing does not remove your responsibility for oversight of this data. If customer or employee data is hacked while with the third-party vendor, your organization can still be responsible. Certain vendors have a Statement on Standards for Attestation Engagements 16 report (SSAE 16 report) that provide you with information about that vendor's internal controls, including data security, and an independent assessment on whether those controls are effective. In addition, any vendors providing PCI DSS services for your organization should be able to provide a certificate of compliance annually upon request. There should be a designated individual within management that is responsible for monitoring information with a third-party service provider at least annually.

Finally, we recommend that you have an incident response plan developed and practiced so that you are prepared in the event of a data breach.

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

The County Board recently approved a resolution authorizing and requesting the Comptroller's Audit Services Division to undertake a cybersecurity audit. The issues described and recommendations put forth by Baker Tilly fall within the scope of the planned audit and will be addressed by it.

---

## **INFORMATIONAL POINTS (cont.)**

---

### **SEC Debt Compliance Considerations**

In 2014, the Securities and Exchange Commission (SEC) undertook an initiative known as the Municipalities Continuing Disclosure Cooperation Initiative (MCDC Initiative). This initiative is a result of SEC concerns about “potentially widespread violations of the federal securities laws by municipal issuers and underwriters of municipal securities in connection with certain representations about continuing disclosures in bond offering documents.”<sup>(1)</sup> Under the MCDC Initiative, the SEC requested municipal securities issuers and underwriters to self-report material false certifications of compliance in bond offering documents.

While the deadline to self-report has passed, we expect the increased scrutiny on municipal securities to continue. The SEC has indicated that no issuer is too small to be involved in an enforcement action. Fines and penalties for violations uncovered after the deadline for self-reporting may be significant. Because your organization issues public debt, we recommend that you take a close look at your policies and procedures to ensure that you are in compliance with what is required.

In addition to the increased focus on official reporting requirements, issuers should also be aware that the SEC has been reviewing public statements made by government officials during its investigations. Following are selections from investigation report release no. 69516, which explain the SEC’s views on this topic:

“Public officials should be mindful that their public statements, whether written or oral, may affect the total mix of information available to investors, and should understand that these public statements, if they are materially misleading or omit material information, can lead to potential liability under the antifraud provisions of the federal securities laws.”

“Investors may be more likely to rely upon statements from public officials where written undertakings made pursuant to Rule 15c2-12 have not been fulfilled and required continuing disclosures are not available through the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system.”

“In this Report, the term “public official” means elected officials, appointed officials, and employees, or their functional equivalents, of any State, municipality, political subdivision or any agency of instrumentality thereof.”

We recommend that your debt policies and procedures incorporate adequate training to ensure that all public officials understand their specific responsibilities in this area.

- (1) SEC website, Division of Enforcement

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

While no violations of federal securities laws by County officials were noted by Baker Tilly, the Office of the Comptroller agrees with the advice/recommendations offered. Consequently, the Comptroller will request Corporation Counsel to review existing policies and procedures for compliance with SEC requirements and to draft a communication providing guidance to public officials at Milwaukee County regarding their responsibilities in this area.

---

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

---

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.