COUNTY OF MILWAUKEE
Inter-Office Communication

Date: March 27, 2017

To: Theodore Lipscomb, Sr., Milwaukee County Board Chairman

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, 2013 through June 30, 2016.

The review was conducted under the auspices of the Association of Local Government Auditors by a team of seasoned professionals from two 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 one observation in its management letter. We agree with the observation and will implement the corresponding suggestions.

Please refer the review to the Finance and Audit Committee.

Sincerely,

Jerome J. Heer

Jerome J. Heer

Attachments

JJH/cah

cc: Scott B. Manske, CPA, Milwaukee County Comptroller
Chris Abele, Milwaukee County Executive
Supervisor Peggy West, Chair, Committee on Finance & Audit
Kelly Bablitch, Chief of Staff, County Board Staff
Steve Cady, Research & Policy Director, Office of the Comptroller
Janelle Jensen, Chief Committee Coordinator, Office of the County Clerk

External Quality Control Review

of the

OFFICE OF THE COMPTROLLER – AUDIT SERVICES DIVISION – MILWAUKEE COUNTY

Conducted in accordance with guidelines of the

Association of Local Government Auditors

for the period **July 1, 2013, to June 30, 2016**

Association of Local Government Auditors

March 23, 2017

Jerome J. Heer, Director of Audits
Milwaukee County Office of the Comptroller
Audit Services Division
633 W. Wisconsin Avenue, Suite 904
Milwaukee, WI 53203

Dear Mr. Heer,

We have completed a peer review of the Office of the Comptroller – Audit Services Division – Milwaukee County for the period July 1, 2013, through June 30, 2016. 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 audits during the period from July 1, 2013, through June 30, 2016.

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

Sincerely,

Jon Goodman, CPA, CFE
Miami - Dade County Public Schools

Ronda M. Kohlheim, MBA
City of Milwaukee

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Association of Local Government Auditors

March 23, 2017

Jerome J. Heer, Director of Audits
Milwaukee County Office of the Comptroller
Audit Services Department
633 W. Wisconsin Avenue, Suite 904
Milwaukee, WI 53203

Dear Mr. Heer,

We have completed a peer review of the Office of the Comptroller Audit Services Division – Milwaukee County for the period July 1, 2013, through June 30, 2016 and issued our report thereon dated March 23, 2017. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

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

- Audit leadership and management are decidedly experienced and accomplished in the public-sector auditing profession. They have contributed substantially to the profession over the years, through activities such as membership on the Comptroller General of the United States' Advisory Council on Government Auditing Standards, and as a principal author of The Role of Auditing in Public Sector Governance, published by The Institute of Internal Auditors. The Audit Division's management, including the Deputy Director, Audit Manager and Audit Compliance Manager, are exceptionally qualified and committed to their work.
- The audit organization demonstrates a strong commitment to adding value to all stakeholders, an important responsiveness to the concerns of the County's governance and constitutional administration, and firmly complies with statutorily required *Government Auditing Standards*.

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

- GAGAS 2.12 defines nonaudit services as "...professional services other than audits or attestation engagements..." GAGAS 3.33 through 3.58, specify that providing nonaudit services may create threats to an auditor's independence and cite examples of certain services that are either prohibited, allowable or allowable only if they have added safeguards in place.

  The Audit Division has implemented fairly extensive policies and procedures to address the provision of nonaudit services. These include procedures related to classification of work, documentation of understanding with management, Non-Audit Services checklist and compliance with overarching principles. Section 2110 of the Division's Policies and Procedures Manual requires audit management to determine that the performance of nonaudit services will not violate the concepts laid out in the GAGAS Conceptual Framework for Independence.

  During the three-year period we reviewed, the Audit Division performed work, labeled as "other", involving investigations, bank reconciliations and countywide audit oversight. Some of this work was incorporated in recent statutory changes.

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In reviewing this work, we suggest that the three above-mentioned services labeled as "other" should, prospectively, be classified as nonaudit services, and the GAGAS Conceptual Framework for Independence referenced in the Policies and Procedures Manual should be applied. We suggest that of the three nonaudit services discussed herein, performance of the bank reconciliations by staff under the Audit Division would require identification and application of additional safeguards, in order to preserve independence. For example, the Audit Division could require documentation evidencing that the account holder/management approves, accepts and understands the nature of any adjusting journal entries, or other changes affecting the financial statements derived from the bank reconciliation process.

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,

Jon Goodman, CPA, CFE
Miami-Dade County Public Schools

Ronda M. Kohlheim, MBA
City of Milwaukee

Office of the Comptroller
Audit Services Division

Milwaukee County

Jerome J. Heer • Director of Audits
Jennifer Folliard • Deputy Director of Audits

March 23, 2017

Mr. Jon Goodman, Executive Audit Director
Division of Charter Schools Audits
Miami-Dade County Public Schools
1450 NE 2nd Avenue, Suite 415
Miami, FL 33132

Dear Mr. Goodman,

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 Ms. Ronda M. Kohlheim 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 the suggestion contained in the management letter. Specifically:

Comment
GAGAS 2.12 defines nonaudit services as "...professional services other than audits or attestation engagements..." GAGAS 3.33 through 3.58, specify that providing nonaudit services may create threats to an auditor's independence and cite examples of certain services that are either prohibited, allowable or allowable only if they have added safeguards in place.

The Audit Division has implemented fairly extensive policies and procedures to address the provision of nonaudit services. These include procedures related to classification of work, documentation of understanding with management, Non-Audit Services checklist and compliance with overarching principles. Section 2110 of the Division's Policies and Procedures Manual requires audit management to determine that the performance of nonaudit services will not violate the concepts laid out in the GAGAS Conceptual Framework for Independence.

During the three-year period we reviewed, the Audit Division performed work, labeled as "other", involving investigations, bank reconciliations and countywide audit oversight. Some of this work was incorporated in recent statutory changes.

In reviewing this work, we suggest that the three above-mentioned services labeled as "other" should, prospectively, be classified as nonaudit services, and the GAGAS Conceptual Framework for Independence referenced in the Policies and Procedures Manual should be applied. We suggest that of the three nonaudit services discussed herein, performance of the bank reconciliations by staff under the Audit Division would require identification and application of additional safeguards, in order to preserve independence. For example, the Audit Division could require documentation evidencing that the account holder/management approves, accepts and understands the nature of any adjusting journal entries, or other changes affecting the financial statements derived from the bank reconciliation process.

Response
We concur with the comment regarding the three nonaudit services provided by our division. Our procedures will be modified to address the comment.

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

Jerome J. Heer
Director of Audits

cc: Ronda M. Kohlheim, City of Milwaukee – Office of the Comptroller
Scott B. Manske, CPA, Milwaukee County Comptroller

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