

**COUNTY OF MILWAUKEE**  
**Inter-Office Communication**

**Date:** April 21, 2010

**To:** Committee on Finance & Audit

**From:** Scott Manske, Controller, Department of Administrative Services  
Jerome J. Heer, Director of Audits

**Subject:** Trust Fund for Fleet & Facilities Division Other Post Employment Benefits (OPEB) Costs  
(File No. 10-117)

At the March 11, 2010 meeting of the Committee on Finance and Audit, the Committee received a report from the Director of Department of Administrative Services (attached), calling for the establishment of a trust fund to account for the OPEB costs of two Divisions within the Department of Transportation and Public Works that had previously been internal service funds. The Committee laid the matter over and called for a report from Audit and the County's external auditors to provide additional insight and opinions on the matter.

The attached letter from the external auditors, Baker Tilly Virchow Krause LLP, identifies the auditor's concurrence with the accounting approach recommended by DAS. The external auditors also point out that accounting standards may dictate a different treatment of this type of fund in 2011. This should not be viewed as an indication that the proposed accounting method is incorrect. Rather, the definitions of funds under the new accounting standards may require a different classification that achieves the same outcome intended in the creation of this trust. Audit and DAS will work with the external auditors in 2011 to address the new accounting standards in a manner that meets the intent of Milwaukee County.

We recommend approval of the department's recommendation.

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Scott Manske, Controller, DAS

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Jerome J. Heer, Director of Audits

SM/JJH/cah

Attachments

cc: Scott Walker, Milwaukee County Executive  
Cynthia Archer, Director, Department of Administrative Services  
Steve Kreklow, Fiscal & Budget Administrator, DAS  
Terrence Cooley, Chief of Staff, County Board Staff  
Steve Cady, Fiscal & Budget Analyst, County Board Staff  
Delores Hervey, Chief Committee Clerk, County Board Staff

**COUNTY OF MILWAUKEE  
INTEROFFICE COMMUNICATION**

DATE: February 22, 2010

TO: Chairman Lee Holloway, Chairman, County Board of Supervisors  
Supervisor Elizabeth Coggs, Chairman, Finance & Audit Committee

FROM: Cynthia Archer, Director, Department of Administrative Services  
*Prepared by: Scott Manske, Controller, DAS – Fiscal Services*

SUBJECT: **Requesting Authorization to Create a Trust Fund for the Department of Transportation and Public Works Fleet and Facilities divisions, for the Purposes of Reimbursing the General Fund for Other Post-Employment Benefit Costs Resulting from Employees of those Divisions.**

**Policy Issue**

Establishment of a Trust Fund requires approval of the County Board per Resolution File No. 86-779(a)(a).

**Background**

The Department of Transportation and Public Works (DTPW) Fleet and DTPW Facilities divisions have an accrued balance of \$4,989,688 in other post-employment benefit (OPEB) liability accounts as of December 31, 2008. OPEB costs represent the cost of retiree health care and life insurance coverage. An actuary performs an actuarial calculation and provides the County with an actuarial study with an estimate of the County's annual OPEB cost and actuarial accrued liability related to its retiree health care and life insurance.

In accordance with Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board (GASB), the Fleet and Facilities divisions, as internal service funds, were required to accrue expenses and create liability accounts to cover the calculated liabilities for OPEB costs. This requirement was established in 2007. As internal service funds, the costs for these divisions were allocated to other County departments. Departments included the costs allocated from the Fleet and Facilities divisions in numerous cost reports for reimbursement from federal and state granting agencies. These cost reports have been audited and accepted by the granting agencies for all the years prior to 2009. These cost reports at this time cannot be amended and are considered final.

In 2008 the operations of the Fleet and Facilities divisions were reviewed and it was determined that these divisions should no longer be reported as internal service funds. As approved in the 2009 Budget, the divisions are now included as part of the General Fund. The General Fund is not required to accrue for OPEB costs. Therefore, the purpose of the account will end, unless the County transfers the funds to a trust fund.

Due to the cost reporting requirements for federal and state grants, these funds can only be used for their previously stated purpose, which was to pay for OPEB costs of the Fleet and Facilities divisions. To comply with the cost reporting requirements, the current balances of the OPEB liabilities should be transferred to a trust fund. The trust will be used to reimburse the General Fund for OPEB costs resulting from Fleet and Facilities employees.

Resolution File No 86-779 (a)(a) requires submission of the following information to the County Board for the creation of a trust fund:

- Total funds to be placed in the trust \$4,989,688
- Source of funds – current balances in the accrued vacation and sick leave accounts (0030-615, 0031-0615)
- Purpose for which the funds can be expended – reimbursement of the General Fund for OPEB costs resulting from employees of the Fleet and Facilities divisions, or who transfer to other County divisions.
- Signed statement from the Controller stating that the establishment of this trust fund would be in accordance with generally accepted accounting principles.
- Estimated length of time the fund would be active – until such time as the fund has been depleted.

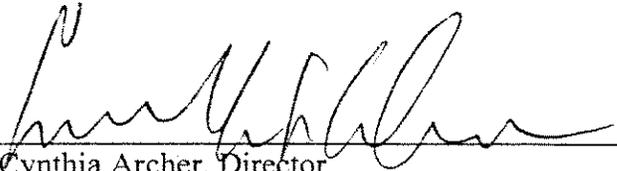
The Director does not require separate banking for this trust account, since the trust would reimburse the General Fund by journal entry.

### **Recommendation**

It is recommended that the County Board of Supervisors authorize the Director, Department of Administrative Services, or her designee, to create a trust fund from accrued OPEB funds that are currently held by the Fleet and Facilities divisions. The funds will be used to reimburse the General Fund for OPEB costs resulting from employees of the Fleet and Facilities divisions, and for the transfer of personnel to other County divisions.

### **Fiscal Effect**

There is no effect on the County's fiscal status resulting from the transfer to the trust fund. The Fleet and Facilities divisions currently hold funds of \$4,989,688 that were created to fund their liability for future OPEB costs. These funds will be transferred to a non-interest bearing trust for Milwaukee County. There is no fiscal effect to the County since these funds are restricted due to the previous cost reporting to federal and state granting agencies. The funds currently held by the Fleet and Facilities divisions of \$4,989,688 in the accrued OPEB liability accounts (0030-0615, 0031-0615) would move to the newly created trust fund, or to any fund to which Fleet or Facilities personnel were transferred.



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Cynthia Archer, Director  
Department of Administrative Services

cc: Scott Walker, County Executive  
Steven Kreklow, Fiscal and Budget Administrator, DAS  
Stephen Cady, County Board Fiscal and Budget Analyst  
Jodi Mapp, County Board Staff

A RESOLUTION

WHEREAS, the Director of the Department of Administrative Services is requesting authorization to create a trust fund to be utilized for reimbursement of the General Fund for other post-employment benefits (OPEB) costs resulting from employees of the Department of Transportation and Public Works (DTPW) Fleet and DTPW Facilities Divisions; and

WHEREAS, establishment of a Trust Fund requires approval of the County Board per Resolution File No. 86-779(a)(a); and

WHEREAS, the DTPW Fleet and DTPW Facilities Divisions have an accrued balance of \$4,989,688.00 in their respective OPEB liability accounts; and

WHEREAS, in accordance with Generally Accepted Accounting Principles (GAAP) and Governmental Accounting Standards Board (GASB) the DTPW Fleet and DTPW Facilities Divisions, as internal service funds, were required to accrue an expense and create a liability account to cover the calculated cost of OPEB for employees in the DTPW Fleet and DTPW Facilities Divisions; and

WHEREAS, these costs were included in cost reports submitted to granting agencies by divisions which have been charged for DTPW Fleet and DTPW Facilities services, since the County began accruing these costs in 2007. These cost reports have been audited and accepted by granting agencies for all the years prior to 2009. At this time, these cost reports cannot be amended, and are considered final; and

WHEREAS, in 2009, the program and revenue sources of the DTPW Fleet and DTPW Facilities Divisions were reviewed and it was determined that these divisions no longer met the requirements of an internal service fund and therefore the divisions became General Fund departments; and

WHEREAS, since the divisions are General Fund departments, they are no longer required to maintain an accrual for OPEB costs; and

WHEREAS, due to the federal and state cost reporting requirements for grants, these accrued funds can only be used for their previously stated purpose, which was to reimburse the division for OPEB costs payable at retirement for any employee of DTPW Fleet and DTPW Facilities divisions; and

WHEREAS, resolution File No 86-779(a)(a) requires submission of the following information to the county board for the creation of a trust fund:

- Total funds to be placed in the trust \$4,989,688.00

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- Source of funds – current balances in the accrued OPEB accounts (0030-0615, 0031-0615)
- Purpose for which the funds can be expended – reimbursement of the General Fund for OPEB costs resulting from employees of the DTPW Fleet and DTPW Facilities divisions, or for employees who transferred from DTPW Fleet and DTPW Facilities to another County division.
- Signed statement from the Controller stating that the establishment of this trust fund would be in accordance with generally accepted accounting principles.
- Estimated length of time the fund would be active – until such time as the fund has been depleted or all eligible employees retire.

and;

WHEREAS, the Director does not require any separate banking of this account balance; and

WHEREAS, there is no fiscal impact associated with this request; and therefore

BE IT RESOLVED, that the Director or her appointee, is hereby authorized and directed to establish a non-interest bearing trust fund from funds that are currently held in the DTPW Fleet and Facilities divisions for other post-employment benefits (OPEB); and

BE IT FURTHER RESOLVED, that the funds in the trust fund will be used to reimburse the General Fund for OPEB costs resulting from DTPW Fleet and DTPW Facilities employees, or for those employees who transferred from DTPW Fleet and DTPW Facilities to another County division, until such time as the trust fund is depleted.

**MILWAUKEE COUNTY FISCAL NOTE FORM**

**DATE:** 2/22/10

Original Fiscal Note

Substitute Fiscal Note

**SUBJECT:** Request to establish a trust fund account

**FISCAL EFFECT:**

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> No Direct County Fiscal Impact                                     | <input type="checkbox"/> Increase Capital Expenditures |
| <input type="checkbox"/> Existing Staff Time Required  | <input type="checkbox"/> Decrease Capital Expenditures |
| <input type="checkbox"/> Increase Operating Expenditures<br>(If checked, check one of two boxes below) | <input type="checkbox"/> Increase Capital Revenues     |
| <input type="checkbox"/> Absorbed Within Agency's Budget   | <input type="checkbox"/> Decrease Capital Revenues     |
| <input type="checkbox"/> Not Absorbed Within Agency's Budget   |  |
| <input type="checkbox"/> Decrease Operating Expenditures   | <input type="checkbox"/> Use of contingent funds       |
| <input type="checkbox"/> Increase Operating Revenues   |  |
| <input type="checkbox"/> Decrease Operating Revenues   |  |

*Indicate below the dollar change from budget for any submission that is projected to result in increased/decreased expenditures or revenues in the current year.*

	<b>Expenditure or Revenue Category</b>	<b>Current Year</b>	<b>Subsequent Year</b>
<b>Operating Budget</b>	Expenditure	0	0
	Revenue	0	0
	Net Cost	0	0
<b>Capital Improvement Budget</b>	Expenditure		
	Revenue		
	Net Cost		

## DESCRIPTION OF FISCAL EFFECT

In the space below, you must provide the following information. Attach additional pages if necessary.

- A. Briefly describe the nature of the action that is being requested or proposed, and the new or changed conditions that would occur if the request or proposal were adopted.
- B. State the direct costs, savings or anticipated revenues associated with the requested or proposed action in the current budget year and how those were calculated.<sup>1</sup> If annualized or subsequent year fiscal impacts are substantially different from current year impacts, then those shall be stated as well. In addition, cite any one-time costs associated with the action, the source of any new or additional revenues (e.g. State, Federal, user fee or private donation), the use of contingent funds, and/or the use of budgeted appropriations due to surpluses or change in purpose required to fund the requested action.
- C. Discuss the budgetary impacts associated with the proposed action in the current year. A statement that sufficient funds are budgeted should be justified with information regarding the amount of budgeted appropriations in the relevant account and whether that amount is sufficient to offset the cost of the requested action. If relevant, discussion of budgetary impacts in subsequent years also shall be discussed. Subsequent year fiscal impacts shall be noted for the entire period in which the requested or proposed action would be implemented when it is reasonable to do so (i.e. a five-year lease agreement shall specify the costs/savings for each of the five years in question). Otherwise, impacts associated with the existing and subsequent budget years should be cited.
- D. Describe any assumptions or interpretations that were utilized to provide the information on this form.

A. The Director of the Department of the Department of Administrative Services, requests the authorization to create a trust fund to be utilized for the reimbursement of the General Fund for other post-employment benefit costs (OPEB) resulting from employees of the Department of Transportation and Public Works (DTPW) Fleet and DTPW Facilities divisions.

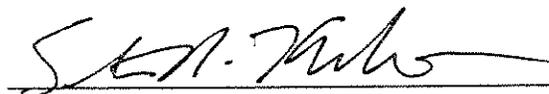
B. There are no direct costs associated with this action.

C. The fiscal impact is zero. Costs have already been accrued, and will be transferred to the trust upon approval.

D. n/a

Department/Prepared By Scott B. Manske, Controller

Authorized Signature



Did DAS-Fiscal Staff Review?



Yes



No

<sup>1</sup> If it is assumed that there is no fiscal impact associated with the requested action, then an explanatory statement that justifies that conclusion shall be provided. If precise impacts cannot be calculated, then an estimate or range should be provided.

2010 APR 20 09:11:17



Baker Tilly Virchow Krause, LLP  
115 S 84th St, Ste 400  
Milwaukee, WI 53214-1475  
tel 414 777 5500  
fax 414 777 5555  
bakertilly.com

April 15, 2010

Mr. Jerry Heer, Director of Audits  
Milwaukee County  
City Campus, 9<sup>th</sup> Floor  
2711 West Wells Street  
Milwaukee, WI 53208

Dear Mr. Heer:

You have requested our analysis and opinion on the accounting and financial reporting treatment of the accumulated reserves for the other post-employment benefit (OPEB) costs related to the Department of Transportation and Public Works (DTPW) Fleet and DTPW Facilities divisions as recommended to the Milwaukee County Finance & Audit committee by the Department of Administrative Services. As such, we provide the following:

#### Background

The following information is excerpted from an interoffice communication from Cynthia Archer, Director, Department of Administrative Services to Chairman Lee Holloway, Chairman, County Board of Supervisors and Supervisor Elizabeth Coggs, Chairman, Finance & Audit Committee, dated February 22, 2010, which is incorporated herein by reference.

Prior to January 1, 2009, the County accounted for and reported the activities of the DTPW Fleet and Facilities divisions as internal service funds. In accordance with generally accepted accounting principles the Fleet and Facilities divisions, as internal service funds were required to accrue expenses and create liability accounts to cover the calculated liabilities for OPEB costs related to employees of these divisions. As internal service funds, the costs incurred in the Fleet and Facilities divisions were allocated to many other County departments.

In 2008, the operations of the Fleet and Facilities divisions were reviewed by County management and it was determined that these divisions no longer met the requirements for internal service fund reporting and therefore should no longer be reported as such. Effective January 1, 2009, the divisions became part of the County's general fund. In accordance with generally accepted accounting principles, the general fund does not accrue for OPEB costs.

This change in reporting raises the question as to what to do with the resources that have been accumulated for OPEB costs in the internal service funds?

County management, via the above referenced interoffice communication and related resolution, have proposed creating a trust fund in which the value of the accumulated OPEB costs from the Fleet and Facilities divisions would be deposited. The funds deposited would then be used to reimburse the general fund for OPEB costs incurred related to employees of Fleet and Facilities divisions.

Mr. Jerry Heer  
Milwaukee County  
April 15, 2010  
Page 2

It should be noted that the County has utilized the creation of a trust fund (actually a special revenue fund for annual financial statement reporting purposes) to account for accumulated employee benefits in similar situations. Recent examples include establishing a trust fund to account for the accrued vacation and sick leave of the Fleet and Facilities divisions and creating a trust fund to account for the accrued vacation and sick leave when the financial reporting for the Behavioral Health Division was changed from an enterprise fund to inclusion in the general fund.

#### Accounting and Financial Reporting Treatment

Generally accepted accounting principles states that a government unit's accounting and reporting policies and procedures should be consistent and applied uniformly to all activities of the government unit. As noted above, the recognition of OPEB expense and related liabilities in the internal service funds was appropriate in the circumstances. Changing the reporting of the Fleet and Facilities division from the internal service fund to the general fund changes the reporting of this liability but does not eliminate the OPEB liability. In other words, the OPEB liability exists for these employees whether they are accounted for in the internal service fund or in the general fund. As noted above, past practice of the County has been to move similar liabilities to a special revenue fund, and then amortize the liability back to the department that originated the liability. As a result, the department that created the liability through an expense charge is the same department that receives a cost offset in the future as the liability is reduced. Any cost allocations or charges from these departments to other departments, who would have originally helped pay for the accrued liability, may now benefit as the liability is reduced.

#### Conclusion

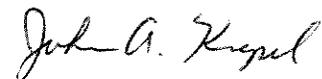
Therefore, in an effort to reflect that these costs have been previously recognized as expenditures and charged to many County departments as well as being consistent with past practices in similar situations, we believe that County management's proposal to create a trust fund (actually a special revenue fund for financial statement reporting purposes) is a reasonable and prudent way to address this situation.

Having said that, it is important to note that for its 2011 financial statements, the County will be required to adopt the provisions of Governmental Accounting Standards Board Statement No. 54 – *Fund Balance Reporting*, which may change the financial statement reporting of this fund. As noted previously, the trust fund will be reported in the annual financial statements as a special revenue fund. GASB Statement No. 54 changes the definition of special revenue funds and given our interpretation of Statement No. 54, we believe that this fund will not meet the new definition for special revenue funds as it does not have a specific revenue source. Accordingly, it would not be appropriate to present this fund as a special revenue fund in the County's 2011 financial statements. We would suggest that County management review the requirements GASB Statement No. 54 as it relates to the definition of special revenue funds.

We would welcome the opportunity to discuss this letter further at your convenience. If you have questions, please contact us.

Very truly yours,

BAKER TILLY VIRCHOW KRAUSE, LLP



John A. Knepel, Partner

jv/JAK