



**Report of Audit Activities
2013**

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Table of Contents

Transmittal Letter.....	1
I. Background	2
II. Audits Issued in 2012	4
III. Audits Issued Prior to 2012.....	7
IV. Commendations.....	9
Attachment 1: Audits Issued in 2012.....	10
Attachment 2: Open Audits Issued Prior to 2012.....	11

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February 19, 2013

To the Honorable
The Common Council
City of Milwaukee

Dear Council Members:

Enclosed is our Report of Audit Activities, pursuant to Common Council Resolution 020897. The report covers audits that were conducted in 2012, as well as audits from prior years where recommendations were not fully implemented or sufficiently addressed. Implementation status is based on updates provided by City departments as well as procedures performed by our office to evaluate implementation status.

We would be pleased to discuss this report with you at your convenience, and before the Common Council Finance and Personnel Committee.

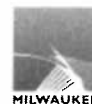
The Audit Division would like to thank all affected departments and City agencies for their assistance in compiling this report.

Sincerely,

A handwritten signature in black ink that reads "Aycha Sirvanci".

Aycha Sirvanci, CPA
Audit Manager

AS:pad



I. Background

Introduction

The Audit Division conducts audits and makes recommendations to strengthen accountability and improve efficiency and effectiveness of City programs. The Audit Division monitors the progress of the recommendations made in the audit reports and reports on the status of all open audit recommendations annually in accordance with Common Council Resolution 020897.

This Report of Audit Activities reports on the status of audit recommendations for all audits conducted in 2012. This report also addresses the status of audit recommendations from audits conducted in 2007 through 2011 that were included in the prior report released on April 20, 2012 that were not fully implemented as of December 31, 2011. The implementation status of all recommendations included in this Report of Audit Activities is reported as of December 31, 2012.

Objectives

The objective of the audit follow up is to confirm whether, and to what degree, the City departments have implemented the recommendations made in the original audit reports.

Scope and Methodology

The scope included the 171 open audit recommendations from 27 audits. Of the 171 audit recommendations, 73 recommendations were from 11 audits from 2007 through 2011 that were reported as not implemented as of December 31, 2011. The remaining 98 recommendations were from the 16 audits issued in 2012. The implementation status of these recommendations was also assessed.

Audits conducted before 2007 are not included in this report because audit recommendations from more than six years ago may not reflect the current business environment.

The Audit Division utilized a risk-based approach in the audit follow-up process, which contains two primary components 1) Management Status/Self-Reporting 2) Verification. Various follow up procedures were used to verify the implementation status of the recommendations, which were inquiry, observation, sampling, walkthrough, and full testing of audit issues. Follow up procedures performed depended on the importance of the recommendation and the risk of the audit finding.

The extent of the follow up procedures for each recommendation was determined by the risk rating assigned. Audit recommendations from audits released in 2010, 2011 and 2012 were rated using high, medium and low risk levels. Risk ratings were assigned by the audit team. The impact and likelihood of the risk posed by the condition were taken into consideration in assigning the risk rating to the recommendation. Recommendations from audits performed before 2010 were not rated since additional follow up procedures were not completed.

After follow up procedures were performed, the Audit Division classified recommendations using the Action Plan Maturity Model (APMM) implementation status ratings scale developed by Sunera¹:

1. **No Progress or Insignificant Progress** - Generating informal plans is regarded as insignificant progress.
2. **Planning Stage** - Formal plans for organizational changes have been created and approved by the appropriate level of management, with appropriate resources assigned and a reasonable timetable to be implemented agreed upon.
3. **Preparation for Implementation** - The entity has begun necessary preparation for implementation, such as hiring or training staff, or developing or acquiring the necessary resources to implement the recommendation.
4. **Substantial Implementation** - Structure and processes are in place and integrated in some parts of the organization, and some achieved results have been identified. A timetable is in place for full implementation.
5. **Full Implementation** - Structures and processes are operating as intended and implemented fully in all intended areas of the organization.
6. **No Longer Applicable** - The recommendation is obsolete due to time lapses, new policies, etc.
7. **Considered and Disagrees** - The department originally agreed with the recommendation, but decided after issuance of the report that they disagree with recommendation. *(This classification is not part of Sunera's scale but was added by Audit Division of the City of Milwaukee.)*

Conclusion

The 171 recommendations were classified into the 7 categories as detailed below:

96 or 56%	Full Implementation
24 or 14%	Substantial Implementation
17 or 10%	Considered and Disagrees
13 or 8%	Preparation for Implementation
12 or 7%	No Progress or Insignificant Progress
6 or 3%	No Longer Applicable
3 or 2%	Planning Stage

There has been considerable progress in addressing the issues through implementation of corrective actions. The Audit Division will continue to monitor the recommendations classified as substantial implementation, preparation for implementation, planning stage and no progress or insignificant progress until remediated.

This report highlights the role and responsibility of the Audit Division within the City of Milwaukee. While the Audit Division does not implement the corrective actions, the audit

¹Goldberg, Danny. "Unit VI: Audit Follow-up." Internal Audit Best Practices and Fundamental Principles [Seminar]. Pewaukee. 16 February 2011.

findings and recommendations are often the catalyst of change that result in a more efficient and effective government. The Audit Division will continue to work with the departments to ensure significant issues are resolved in a timely manner by the responsible party.

II. Audits Issued in 2012

Attachment 1 summarizes implementation status of recommendations of the audits issued in 2012.

The **External IS Network Security Audit** determined if the City's computing environment is sufficiently protected through the proper configuration and maintenance of City computing devices, proper enforcement of anti-virus definitions, and server hardening precautions as defined by IS best practices. The audit made two recommendations. Of the two recommendations, one recommendation is in the planning for implementation stage and one recommendation has been fully implemented.

The **City Clerks Licensing System (LIRA) Audit** evaluated whether the implementation of the new licensing application, the License Information Reporting and Administration System (LIRA) was successful and the controls within LIRA adhere to IS security and financial control best practices. The audit made two recommendations that have been fully implemented.

The **Port of Milwaukee Billings, Receivables, and Fixed Assets Audit** evaluated the implementation status of recommendations from three audits performed at the Port of Milwaukee: 2005 Audit of Port's Billing, Collection and Accounts Receivable; 2009 Review of Port's Fixed Asset Inventory performed by M.L. Tharp and Associates; and 2009 Sales Tax Audit performed by the Wisconsin Department of Revenue. The audit also examined the accuracy and timeliness of billings and collections at the Port. The audit made 13 recommendations. Of the 13 recommendations, insignificant progress has been made on one recommendation, two recommendations are in the planning stage, two recommendations are in the preparation for implementation stage, seven recommendations have been fully implemented and one recommendation is no longer applicable.

The **Internal Network Security Audit** tested the internal network security of the City's computer network. The audit made two recommendations. Of the two recommendations, no significant progress has been made on one recommendation and one recommendation has been fully implemented.

The **Fire ALS Billings and Receivables Audit** evaluated the accuracy of the receivables as stated by the third party vendor (Intermedix), evaluated the accuracy and timeliness of billings, evaluated the reasonableness of the amount of refunds occurring to payees, and finally determined if ALS receivables should be recorded on the City's general ledger. The audit made nine recommendations. Of the nine recommendations, no significant process has been made on four recommendations, one recommendation is in the preparation for implementation stage, and four recommendations have been fully implemented. From the follow up procedures performed, it appears that the third party still has significant deficiencies as the original audit noted.

However, the Fire Department is currently working with Procurement Services to issue a request for proposal for a new third party billing company.

The **Department of Public Works Parking Division Revenue Recognition Audit** evaluated controls over the accuracy and timeliness of Parking Fund deposits and recording of revenues. The audit made two recommendations. Of the two recommendations, one is in the preparation for implementation stage and one has been substantially implemented.

The **Department of Public Works Billings and Receivables Audit** evaluated the timeliness and accuracy of the recording of the billings, collections, and receivables in all software used by the Department of Public Works and the City's general ledger, and the adequacy of controls over the billing and receivable procedures for code violations and property damage. The audit made nine recommendations. Of the nine recommendations, insignificant process has been made on one recommendation, one recommendation has been substantially implemented, four recommendations have been fully implemented and three recommendations are no longer applicable.

The **City Treasurer Cash Controls Audit** evaluated whether cash controls in the Office of the Treasurer are adequate; whether cash receipts are properly and timely secured and deposited to the bank; and whether daily cash transactions are accurately and timely recorded in the City's Financial Management Information System (FMIS). The audit assessed controls within the administration of the iNovah application, bank reconciliation procedures, and the status of implementation of audit recommendations from the 2011 audit. The audit made three recommendations. Of the three recommendations, one has been substantially implemented, and two have been fully implemented.

The **Department of Neighborhood Services Billings and Receivable Audit** evaluated the timeliness and accuracy of the recording of the billings, collections, and receivables in all software used by the Department of Neighborhood Services (DNS) and the City's general ledger and to evaluate the adequacy of controls over the DNS billing and receivable procedures. The audit made 11 recommendations. Of the 11 recommendations, two recommendations have been substantially implemented and nine recommendations have been fully implemented.

The **Municipal Court Receivables Audit** evaluated the Municipal Court's internal controls over its management of receivables and collections policies, procedures, and operations; assessed the adequacy and effectiveness of controls surrounding the Case Automated Tracking System (CATS) specific to receivables; and followed up on the 2005 Municipal Court Cashiering Audit recommendations. The audit made nine recommendations which all have been fully implemented.

The **Department of Public Works Water and Infrastructure Inventory Audit** evaluated and tested the inventory management policies, procedures, and internal controls; evaluated and tested the accuracy of inventory records and management reporting; evaluated the extent of obsolete or slow moving inventory; and evaluated and tested the physical security controls in place at each warehouse location. The audit report made eight recommendations. Of the eight recommendations, two are in the preparation for implementation stage; three have been

substantially implemented and three have been fully implemented. Only inquiries were made of the auditee. Follow up procedures will be performed in 2013.

The **Municipal Court CATS Application Audit** of the Municipal Court's Case Automated Tracking System (CATS) reviewed various information technology controls with regard to CATS and the Court's use of CATS. This audit was a component of the Comptroller's comprehensive information systems (IS) audit work plan. The audit made one recommendation which has been substantially implemented.

The **Worker's Compensation – Claims Management Audit** examined seven categories including the investigation phase, recovery phase, medical management, evaluation, reserves, negotiation/disposition and customer service. The audit report made ten recommendations. Of the ten recommendations, one is in the preparation for implementation stage; two have been substantially implemented and seven have been fully implemented. Inquiries only were made of the auditee. Follow up procedures will be performed in 2013.

The **Worker's Compensation – Medical Bill Review Audit** examined the timeliness of adjusters approving bills and timeliness of transporting medical bills to the third party. The audit also examined the third party vendor's application of proper coding and discounts for medical fees and examined that all medical records were properly retained with the medical bills. The audit report made three recommendations. Of the three recommendations, all have been fully implemented. Inquiries only were made of the auditee. Follow up procedures will be performed in 2013.

The **Department of City Development Cash Handling Audit** evaluated controls over all collections processes, the cashiering system and reconciliation procedures; evaluated timeliness and accuracy of deposits to the Treasurer's Office; and evaluated timeliness and accuracy of the recording of revenue to the City's general ledger. The audit report made ten recommendations. Of the ten recommendations, four are in the preparation for implementation stage; five have been fully implemented and one recommendation is no longer applicable. Inquiries only were made of the auditee. Follow up procedures will be performed in 2013.

The **Audit of the Department of Public Works Parking Structures Cash Controls and Leases** assessed compliance with the Parking Facility Management Agreement between the City of Milwaukee and Standard Parking, evaluated the internal controls surrounding the collection of cash and cash equivalents by Standard Parking, assessed the accuracy of deposits with the City Treasurer and recording of revenue on the City's accounting system, and evaluated the accuracy of billing and receipts for the parking lot and parking structure leases. Follow up procedures will be performed in 2013.

In addition to the audits, the Audit Division operates the City's Fraud, Waste and Abuse Hotline, under Common Council Resolution 040063. A report of Hotline activities was issued to the Common Council on February 1, 2013 for the year ended December 31, 2012.

III. Audits Issued Prior to 2012

Attachment 2 summarizes the implementation status of open recommendations from the 11 audits from 2007 through 2011.

2011

The **IS Security Policy Audit** evaluated whether IS security policies and guidelines are current, relevant and adhere to IS security best practices. The audit made five recommendations. Of the five recommendations, one is in the preparation for implementation stage and four have been fully implemented.

The **Audit of DPW Fleet Services Inventory** evaluated whether Fleet inventory accounts and records are accurate and complete, evaluated Fleet's inventory policies, procedures and internal controls, and evaluated Fleet's inventory physical security, inventory management and oversight. The audit report made 11 primary recommendations and 31 sub-recommendations for a total of 42 recommendations. Of the 42 recommendations, three have been substantially implemented, 36 have been fully implemented and the auditee considered and now disagrees with three recommendations.

The **Audit of MPD Cash Handling Procedures** evaluated cash handling controls and procedures utilized by MPD, the timeliness and accuracy of deposits and accounting records, related to cash receipts processed by MPD, and controls over parking permit stock and purchases processed by MPD. The audit report made four recommendations. Of the four recommendations, two were previously fully implemented. Of the remaining two, MPD has fully implemented one of the recommendations and one recommendation has been substantially implemented.

The **Audit of Health Department Cashiering Controls** evaluated internal controls over collection of receipts, the reconciliation and deposit activities of cash receipts, and safeguarding of the receipts prior to deposit with the City Treasurer. The audit made six recommendations. Of the six recommendations five have been substantially implemented and one has been fully implemented.

2010

The **Audit of City Assessments for Commercial Property** evaluated if commercial property assessments comply with Wisconsin statutes and TID commercial assessments are consistent with other commercial properties, evaluated how commercial assessments compare with market values at the time of sale, and evaluated the effect that alternative values of equalized value as calculated by WI DOR would have on the City, including the effect on the levy. The audit made four recommendations. Of the four recommendations, one recommendation is in the preparation for implementation stage, two recommendations have been substantially implemented and one recommendation the City Assessor considered and now disagrees with the recommendation.

The **Audit of IS Disaster Recovery** determined if DOA ITMD has a documented Disaster Recovery Plan that includes all key components except annual testing. The audit further determined the Treasurer's Office and DPW do not have formal written disaster plans. Of the three recommendations in the audit, ITMD fully implemented one previously. Of the remaining two recommendations, one is in the planning for implementation stage and one recommendation

is no longer applicable.

The **Audit of IS Datacenters** determined if the City's computing environment is sufficiently protected through the operational effectiveness of physical and environmental controls as defined by IS best practices. The audit made six recommendations. Of the six recommendations five were previously fully implemented. The remaining recommendation has been fully implemented.

2008

The **Audit of the City Recycling Program** evaluated program compliance with applicable WI statutes, determined program cost and tax levy impact and evaluated program performance and efficiency. The audit made nine recommendations to minimize cost and improve program utilization. DPW previously fully implemented seven recommendations and has fully implemented the remaining two recommendations.

The **Audit of DPW Residential Paving** developed a descriptive street condition inventory and profile, evaluated DPW programs for assessing street condition, determining repair or replacement needs and planning and scheduling work and evaluated the street project approval process and the impact on City budgets. For the Residential Street Paving Audit, the response from the department states that substantially all recommendations have been implemented. The Audit Division will consider the Residential Street Paving program in the future for a follow up audit when it is deemed appropriate.

2007

The **Business Improvement District Loans Audit** evaluated DCD policies governing BID loans, evaluated BID loan terms and whether they are consistently applied to BIDs and evaluated loan collection procedures. The audit made seven recommendations. Of the seven recommendations six have been previously fully implemented. The remaining recommendation has been substantially implemented.

The **Audit of Milwaukee Police Department Overtime** developed comprehensive descriptive data on overtime, identified causes and drivers for the overtime, evaluated MPD overtime management and evaluated the potential for overtime reduction. The audit made ten recommendations. MPD previously fully implemented seven recommendations. Of the remaining three recommendations, one has been substantially implemented, one has been fully implemented and one MPD considered and disagrees.

IV. Commendations

The Audit Division would like to commend the personnel of departments that participated in the following audits for completing implementation of all or substantially all of the recommendations made in the audit report within six to eight months after the issuance of the audit report:

- City Clerk's Licensing System (LIRA) 2012
- Department of Public Works - Billings and Receivables Audit 2012
- City Treasurer - Cash Control Audit 2012
- Department of Neighborhood Services - Billings and Receivables Audit 2012
- Municipal Court Receivables Audit 2012
- Municipal Court CATS Application Audit 2012
- Milwaukee Water Works - Cash Audit 2011
- City Treasurer - Cash Control Audit 2011

The implementation of all or substantially all of the recommendations demonstrates the department's commitment to an efficient and effective local government.

Audits Issued in 2012

Report of Audit Activities, February 2013

Audit	Date Issued	Audit Title	Status of Recommendation									
			Total Recommendations	1 - Insignificant Progress	2 - Planning Stage	3 - Preparation for Implementation	4 - Substantial Implementation	5 - Full Implementation	6 - No Longer Applicable	7 - Considered and Disagrees		
1	1/5/2012	External IS Network Security (Consultant Assisted)	2	1				1				
2	1/24/2012	City Clerks Licensing System (LIRA)	2					2				
3	3/26/2012	Port of Milwaukee Billings, Receivables, and Fixed Assets	13	1	2	2		7	1			
4	4/5/2012	Internal Network Security (Consultant Assisted)	2	1				1				
5	4/5/2012	Fire ALS Billings and Receivables	9	4		1		4				
6	5/18/2012	DPW Parking Division Revenue Recognition	2			1	1					
7	5/8/2012	DPW Billings and Receivables	9	1			1	4	3			
8	5/15/2012	City Treasurer Cash Controls	3					1	2			
9	6/22/2012	DNS Billings and Receivables	11					2	9			
10	7/11/2012	Municipal Court Receivables	9						9			
11	9/26/2012	DPW Water & Infrastructure Inventory	8					2	3	3		
12	9/29/2012	Municipal Court CATS Application	1					1				
13	10/5/2012	Workers Compensation - Claims Management	10					1	2	7		
14	10/5/2012	Workers Compensation - Medical Bill Review	3							3		
15	11/2/2012	DCD Cash Handling	10					4	5	1		
16	11/30/2012	DPW Parking Structures Cash Controls and Leases	4	4								

Open Audits Issued Prior to 2012
 Report of Audit Activities, February 2013

Audit	Date Issued	Audit Title	Total Recommendations	Status of Recommendation									
				Previously Implemented	1 - Insignificant Progress	2 - Planning Stage	3 - Preparation for Implementation	4 - Substantial Implementation	5 - Full Implementation	6 - No Longer Applicable	7 - Considered and Disagrees		
1	2/21/2007	Business Improvement District Loans Audit	7	6				1					
2	6/18/2007	MPD Overtime (Consultant Assisted)	10	7				1					1
3	6/20/2008	City Recycling Program	9	7					2				
4	12/8/2008	DPW Residential Street Paving (Consultant Assisted)	33						21				12
5	1/4/2010	City Assessments for Commercial Property (Consultant Assisted)	4				1	2					1
6	7/12/2010	IS Disaster Recovery	3	1		1						1	
7	11/19/2010	IS Datacenters	6	5					1				
8	5/20/2011	IS Security Policy	5				1						
9	6/24/2011	DPW Fleet Services Inventory	42	28				3	8				3
10	7/8/2011	MPD Cash Handling Procedures	4	2					1				
11	9/1/2011	Health Dept. Cashiering Control	6						5				1