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Office of the Comptroller

December 3, 2004

To the Honorable
the Common Council
City of Milwaukee

Council Members:

Enclosed is our Report of Audit Activities, pursuant to Common Council Resolution 020897. The report covers audits conducted during 2004, as well as 2003 and 2002 audits where recommendations have not been fully implemented or sufficiently addressed. Implementation status is based on updates provided by City departments. The report also identifies future audits.

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

Sincerely,

W. MARTIN MORICS
Comptroller

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This Report of Audit Activity by the Office of the Comptroller includes the major audits conducted thus far in 2004, as well as 2003 and 2002 audits where recommendations have not been fully implemented or sufficiently addressed. The reported implementation status of audit recommendations is based on written updates provided by City departments. Our Office has generally not verified this status information, but may choose to perform audit activity in the future to accomplish this verification on a selected basis, such as the follow-up audit conducted in 2004 on recommendations in our 2001 audit of Community Block Grant Administration (CBGA) Program Monitoring.

Table 1 summarizes the 14 major audits undertaken in 2004. Six audits have been completed and issued and 8 audits are underway with reports to be issued early next year.

The audit reports issued in 2004 include audits of Family Medical Leave Act (FMLA) Utilization, the follow-up audit on CBGA Program Monitoring, Inventory of Department of Public Works (DPW) Databases, and City Fleet Management. Although not a major audit effort, the Office of the Comptroller also performed a limited review of the status of a City grant funded Westside Housing Cooperative property rehabilitation project. A full audit of one of the properties is planned for 2005.

The 2004 audit recommendations have generally been well received. The Department of Employee Relations indicates it is in the process of addressing the 2 audit recommendations to improve the tracking and monitoring of FMLA leave. The follow-up Audit of CBGA Program Monitoring disclosed that 7 of the 9 recommendations in our 2001 Audit were fully or partially implemented. CBGA currently indicates that 8 of the 9 recommendations have been implemented and the last recommendation to study the long-term impact of City grants is waiting for funding. DPW made a firm commitment to improve fleet management at the Common Council committee hearing on the Fleet Audit. We understand that a resolution will soon be introduced to provide Common Council direction to DPW in this matter. We will continue to monitor and report the status of these audit recommendations.

The 2004 reports nearing completion include audits of City Residential Property Assessments for tax purposes and a City Information Technology Security Risk Assessment. The Property Assessments audit will report on the extent of compliance with statutory requirements and professional assessment standards, as well as the adequacy of controls over the assessment process. The Information Technology audit was conducted with technical assistance from a consulting firm and will report on the state of IT security in City government. The other audits underway are summarized in Table 1.

In addition to these major 2004 audits, pursuant to Common Council Resolution 040063, the Office of the Comptroller implemented an "Audit Hotline" Pilot Project to provide citizens, City employees and other interested parties the opportunity to communicate their

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complaints about any aspect of City government in a convenient and confidential manner. We will be reporting on the outcome of this Pilot Project in late December.

The Office of the Comptroller issued 7 major audits in 2003 and 8 in 2002. Table 2 summarizes the 10 major audits from 2003 and 2002 that were reported as having unimplemented recommendations in our last Report of Audit Activities. The success in implementing these recommendations varies.

The Department of Administration indicates that all of the essential recommendations in the 2003 Audit of the City Procard Program have been implemented. The Department of Neighborhood Services and Milwaukee Police Department indicate that all 10 recommendations in the 2002 Audit of the City Anti-Graffiti Program have also been implemented. It appears that the Department of Public Works has implemented 11 of the 12 recommendations in the 2002 Audit of the Tow Lot.

The Health Department indicates that it has made substantial progress in implementing the 9 recommendations in the 2003 Audit of City Restaurant Regulation. The Health Department reports that it has implemented a progressive restaurant sanitation enforcement policy. However, according to the Department, the recommendation to document the compliance status of all sanitary risk factors at every restaurant inspection will not be implemented until a new computer database is operational. The Department also indicates it will soon make a decision on whether to implement the recommendation to make the results of restaurant inspections available to the public over the Internet.

In our last Report of Audit Activities we indicated that 6 of 9 recommendations in the 2003 Audit of Department of City Development Contract Management and Administration appeared not to have been implemented. Also, it appeared that the 3 recommendations addressed to DCD in the 2002 Audit of the City Assessor Real Estate Tax Exemption Process had not been implemented. DCD did not respond to our requests for updates on these audits, so we have no indication that any additional follow-up has taken place since our last Report.

The 2003 Audit of the Police 3rd District Capital Project was followed by Common Council Resolution 030991 directing the Department of Administration to implement a set of 21 standards for proposed capital projects and to improve capital project monitoring. The Resolution also directs the Department of Public Works to implement 10 specific actions to improve project management practices. This Resolution is not yet fully implemented, but some key actions have taken place.

A Working Group of City departments was created to improve Tax Incremental District and other capital project controls and oversight. The Comptroller has recently sent recommendations to Alderman Murphy as a result of this effort. The Department of Administration is actively participating in this Working Group and analyzing ways to implement the Audit Resolution. Working with the Department of Administration and

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Comptroller, the Department of Public Works has initiated improvements in planning and contracting for its extensive City Hall Historic Restoration Project.

This Resolution also directs the Department of Administration to annually apprise the Common Council of the status of the improvements called for by the Resolution. The Department of Administration indicates that status information has been communicated at a staff level, but apparently a formal status report has yet to be submitted to the Common Council. We recommend that the Department of Administration, together with the Department of Public Works, prepare and submit a status report to the Common Council, documenting the first-year progress toward implementing the Resolution.

Table 3 lists nine major audits planned for 2005. This includes two separate audits of billing, collection and accounts receivable systems that were previously suspended because of significant deficiencies that made these operations unauditible.

An audit of Port of Milwaukee accounts receivable was suspended in September 2001 when it was determined that billings were backlogged, none of the 2001 billings were recorded in the City FMIS accounting system, the billing system had not been reconciled with the City FMIS since 1998, and billing system reports were not available for audit. The Port indicates it has improved its billing process and the audit is expected to resume in January 2005.

An audit of Fire Department emergency transport billings was suspended in July 2003 when it was determined that the outside billing contractor unexpectedly terminated its contract and billings had not been processed since March 2003. The Fire Department has recently acquired a new billing contractor. As a result, this audit is expected to resume in February 2005.

An Audit of City loans to Business Improvement Districts is planned to begin in February 2005.

Start of the Audit of Department of Public Works Procurement has been delayed by other audits, but is scheduled to begin in earnest in January with the report issued in 2005. This audit was requested by Alderman Witkowski and Alderman Davis.

An Audit of the Department of Public Works Residents Preference Program was requested by the Department and is scheduled to begin in the first quarter of 2005.

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Table 1: Major 2004 Audits

Audit	Date Issued	Audit Scope	Audit Objectives	Audit Conclusion or Status	Recommendation Status
1	Targeted for 2/05	Audit of City Leases	Inventory City leases. Evaluate lease management practices by City departments.	Audit is underway. A draft report should be available for departments in 1/05 with the final report issued in 2/05.	Recommendation status will be reported in future Reports.
2	Targeted for 2/05	Audit of 1000 Water Street Condominium Association	Evaluate accuracy and reasonableness of charges to the City by the Condominium Association for the City owned parking structure. Evaluate compliance with the condominium documents.	Audit is underway. A draft report should be available for DPW in 1/05 with the final report issued in 2/05.	Recommendation status will be reported in future Reports.
3	Targeted for 2/05	Audit of City Contracts with Former Employees	Evaluate contracts against IRS criteria for status as independent contractor or employee.	Audit is underway. A draft report should be available for DER and City Attorney in 1/05 with the final issued in 2/05.	Recommendation status will be reported in future Reports.
4	Targeted for 2/05	Audit of Treasurer 2003 Cashiering	Evaluate procedures and controls for cashiering and cash reporting. This is usually an annual audit.	Audit is underway. A draft should be available in 1/05, after year-end cash balances are audited, with the final report issued in 2/05.	Recommendation status will be reported in future Reports.
5	Targeted for 1/05	City Information Technology Security Risk Assessment (Consultant Assisted)	Conduct a high-level security risk assessment of City Information Technology.	Audit is underway. A draft report should be available for departments in 12/04 with the final report issued in 1/05.	Recommendation status will be reported in future Reports.
6	Targeted for 1/05	Audit of City Residential Property Assessments	Evaluate 2004 residential property assessments for compliance with State regulations and professional standards. Evaluate controls in the assessment process.	Audit is underway. A draft report should be available for the Assessor in 12/04 with the final report issued in 1/05.	Recommendation status will be reported in future Reports.

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Table 1: Major 2004 Audits

Audit	Date Issued	Audit Scope	Audit Objectives	Audit Conclusion or Status	Recommendation Status
7	Targeted for 1/05	Audit of Fire Intergovernmental Agreements	Evaluate compliance with the major terms of agreements between Fire Department and West Milwaukee for fire services and with the State for hazardous materials. Evaluate the cost basis for services under the agreements.	Audit is underway. A draft report should be available for Fire in 12/04 with the final report issued in 1/05.	Recommendation status will be reported in future Reports.
8	Targeted for 12/04	Audit of City Library Agreements with Milwaukee County Federated Library System	Evaluate compliance with the major terms of agreements between the Library and MCFLS. Evaluate the cost basis for services under the agreements.	Audit is underway. A draft report is under review by Library with the final report issued in 12/04.	Recommendation status will be reported in future Reports.
9	9/3/04	Audit of City Fleet Management	Evaluate policies, organization, management and controls for the purchase, assignment, use and repair of the City automobile and pickup truck fleet.	Based on actual miles driven in 2003, the audit disclosed that the vehicle fleet is too large, leading to excessive budget and very high cost per mile. The audit makes 12 recommendations.	Recommendation status will be reported in future Reports.
10	7/28/04	Inventory of Department of Public Works Infrastructure Databases	Provide an inventory of the manual and automated databases used by DPW to manage streets and alleys, bridges, sewers, and water mains.	Infrastructure data maintained by DPW for the four infrastructure classes is comprehensive, extensive, and detailed. The audit identified and described 22 computer databases containing over 925,000 records, and 4 manual files with over 78,000 records. No recommendations	No recommendations.
11	5/28/04	Implementation Status of 2001 Audit Recommendations for Community Block Grant Agency Program Monitoring	Examine the implementation status of the prior 2001 audit recommendations.	CBGA made significant progress in implementing the 9 prior recommendations, but further improvements were needed. No new recommendations.	CBGA appears to have implemented or adequately addressed 8 of the 9 recommendations in the 2001 audit. CBGA indicates it will seek funding in 2005 for the final recommendation to conduct an assessment of the long-term impact of City grant funding.

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Table 1: Major 2004 Audits

Audit	Date Issued	Audit Scope	Audit Objectives	Audit Conclusion or Status	Recommendation Status
12	5/19/04	Audit of Treasurer 2003 Cashiering	Evaluate procedures and controls for cashiering and cash reporting. This is usually an annual audit.	Procedures and controls for 2003 cashiering and cash reporting were adequate, and year-end cash balances were accurately reported. No recommendations.	No recommendations.
13	3/9/04	Audit of Family Medical Leave Act (FMLA) Utilization	Evaluate Department of Employee Relations and City department policies and procedures for granting and monitoring FMLA.	FMLA data in the City payroll system is often incorrect or missing and is not reliable for determining department compliance with FMLA law. The audit makes 2 recommendations.	It appears that DER is in the process of implementing the 2 audit recommendations by working with the Comptroller's Office on a cost-effective means to track FMLA use, and by revising and promulgating policies aimed at consistent application of FMLA. Comptroller will continue to monitor status.
14	1/23/04	Audit of 2003 Payroll W-2s	Evaluate accuracy and completeness of W-2s. This is an annual audit.	W-2s for 8,812 employees, reporting \$366.6 million, were accurate and complete. No recommendations.	No recommendations.

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Table 2: Major 2003 and 2002 Audits with Pending Recommendations

Audit	Date Issued	Audit Scope	Audit Objectives	Audit Conclusions	Recommendation Status
1	11/25/03	Audit of Department of Public Works Billings and Collections	Evaluate procedures and controls for DPW billings and collections involving outside parties. Evaluate compliance with City billing policies.	Billing are generally accurate and complete, but improvements in controls are needed. Also, bills should be more timely. The audit makes 9 recommendations.	It appears that 6 of the 9 audit recommendations have been substantially implemented. Comptroller will continue to monitor status.
2	11/20/03	Audit of City Procard Program	Evaluate Procard administrative procedures and controls, and compliance with procurement policies.	The ProCard program is administered effectively, but improvements in controls are needed. The audit makes 25 recommendations.	It appears that DOA has implemented all essential audit recommendations.
3	10/16/03	Audit of Police 3 rd District Capital Project (Consultant Assisted)	Evaluate the capital project to construct a new 3 rd District Police Station and Data Communications Center and to install related technology, at the request of Ald. Murphy.	Significant weaknesses found in City capital project management, but no financial irregularities. The audit makes 6 recommendations.	DOA and DPW report substantial progress in implementing the 6 audit recommendations, as required by Common Council resolution 030991. Comptroller will continue to monitor status.
4	5/9/03	Audit of Municipal Services Billings and Collections by the Water Works	Evaluate billing and collection procedures and controls for municipal service bills.	Bills are accurate, but improvements are recommended in account administration and collections. The audit makes 6 recommendations.	It appears that 5 of the 6 recommendations have been implemented, or are in the process of being implemented as part of the conversion to a new Customer Information System. Water Works indicates it will reconsider the recommendation to shorten the billing cycle during 2006 budget preparation.
5	3/11/03	Audit of Development Contract Management and Administration	Evaluate development contract administration for contracts with the City, RACM, and MEDC.	Contract administration is generally adequate to protect the City's financial interests, but some improvements are recommended. The audit makes 9 recommendations.	The 2003 Audit Activities Report noted that 6 of 9 recommendations appeared not yet implemented. The current status could not be determined because DCD did not respond to a recent request for an implementation update.

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Table 2: Major 2003 and 2002 Audits with Pending Recommendations

Audit	Date Issued	Audit Scope	Audit Objectives	Audit Conclusions	Recommendation Status
6	8/29/02	Audit of City Restaurant Regulation (State of Wisconsin Assisted)	Evaluate legislative compliance and effectiveness of the Health Department regulatory program. The Wisconsin Department of Health and Family Services assisted in the audit.	Health operates a strong professional program, but some significant improvements are recommended. The audit makes 9 recommendations.	MHD indicates there has been substantial progress in implementing the audit recommendations. Comptroller will continue to monitor status.
7	4/15/02	Audit of City Clerk License System	Evaluate license system security and controls, and follow-up on the prior 1993 audit.	License system security and controls have been improved substantially since the 1993 audit. Some further improvements are recommended. The audit makes 4 recommendations.	It appears 1 of the 4 recommendations has been implemented. The City Clerk plans to replace the License System and indicates that the remaining 3 recommendations should be implemented as part of this new System. Comptroller will continue to monitor status.
8	3/15/02	Audit of the Department of Public Works Tow Lot	Evaluate procedures and controls for fees, collections, and vendor payments. Also, evaluate vehicle security.	Procedures and controls are generally adequate, but some improvements are recommended. Vehicle security monitoring should be improved. The audit makes 12 recommendations.	It appears 11 of the 12 recommendations have been implemented or adequately addressed. The Treasurer has not received timely Tow Lot deposit information as recommended.
9	2/5/02	Audit of the City Assessor Real Estate Tax Exemption Process	Evaluate the processing of tax exemptions.	The tax exemption process complies with Wisconsin statutes, but some properties are not returned to taxable status timely, and governmental property records are not accurate and complete. The Audit makes 6 recommendations	It appears 2 of the 6 recommendations have been implemented or adequately addressed. Another is being implemented by the Assessor. DCD did not respond to 2003 and 2004 requests for updates on the 3 recommendations addressed to the Department. Comptroller will continue to monitor progress.
10	1/02	Audit of City Anti-graffiti Program	Evaluate Program effectiveness.	The City has a strong Program, but better information and reporting is needed. The Audit makes 10 recommendations.	It appears that all 10 recommendations have been implemented or adequately addressed.

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Table 3: Major 2005 Audits

Audit	Audit Scope	Audit Objectives	Audit Status
1	Audit of 2004 Payroll W-2s	Evaluate accuracy and completeness of W-2s. This is an annual audit.	Audit will be conducted and report issued in 1/05
2	Audit of a City Grant Funded Westside Housing Cooperative Property Rehabilitation and Sale	Evaluate compliance with City and grant requirements for the rehabilitation and sale of the selected property. Evaluate rehabilitation expenditures and City project monitoring.	Audit is scheduled to start in 1/05.
3	Audit of Department of Public Works Procurement	Evaluate DPW procurement compliance with Wis. Statutes and City ordinances. Evaluate procurement controls. Compare procurement policies and procedures used by DPW and DOA.	Audit is scheduled to start in 1/05
4	Audit of Department of Public Works Residents Preference Program	Evaluate compliance with City ordinances.	Audit is scheduled to start in first quarter 2005.
5	Audit of Department of Public Works Emerging Business Enterprise Program	Evaluate compliance with City ordinances.	Audit is scheduled to start in first quarter 2005
6	Audit of County House of Corrections inmate per diem charges to the City	Evaluate current County charges for compliance with a Wis. Supreme Court decision on allowable charges. This	Audit is scheduled to start in 1/05
7	Audit of Port Billings and Collections	Evaluate procedures and controls for Port billings and collections. Evaluate compliance with Port billing policies.	Audit was started in 2001 and was suspended when billings were deemed unauditible. Port indicates it has improved its billing process and audit is expected to resume in 1/05.
8	Audit of the Fire Department Emergency Transport Billings,	Determine the costs and revenues associated with emergency medical conveyances by Fire acting as backup for private ambulance companies. Evaluate procedures and controls for Fire billings and collections. Evaluate compliance with Fire billing policies.	Audit was started in 2003 and was suspended when it was learned that the outside billing contractor unexpectedly terminated the contract and ended all billing in 3/03. Fire has a new billing contractor and the audit is expected to resume in first quarter 2005
9	Audit of City loans to Business Improvement Districts	Evaluate BID loan administration by the Department of City Development.	Audit is expected to start in 2/05.