



777 East Wisconsin Avenue  
Milwaukee, WI 53202

May 31, 2002

**CONFIDENTIAL**

The Honorable Members  
of the Common Council  
of the City of Milwaukee

Dear Council Members:

We have audited the general purpose financial statements of the City of Milwaukee (a municipality incorporated under the laws of the State of Wisconsin) as of and for the year ended December 31, 2001 and have issued our report thereon dated May 31, 2002. In planning and performing our audit of the financial statements of the City, we considered internal control in order to determine our audit procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the City's Comptroller, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

**PEOPLESOFT UPGRADE**

***Comment:***

We noted that the City upgraded to PeopleSoft Financial (version 7.5) in September 2001. The City faced many difficulties as part of this upgrade including the loss of the ability to process accounts payable and review expenditures for approximately four months. As a result, there was a delay in the year-end closing process as well as difficulties in reconciling accounts payable.

***Recommendation:***

We recommend the City perform a comprehensive post-implementation review for the upgrade with emphasis on identifying the breakdowns in the upgrade process. This information is critical to the success of future upgrades and the overall control environment at the City.





The Common Council  
City of Milwaukee  
May 31, 2002  
Page 2

## GENERAL ACCOUNTING

We noted the following comments in the general accounting area:

### **Completeness of Accounts Payable**

#### ***Comment:***

We noted that as a result of our search for unrecorded liabilities, approximately \$1,138,000 (consists of one transaction), \$678,000 (consisting of eight transactions), and \$1,600,000 (consisting of two transactions) of liabilities were not recorded in accounts payable of the General Fund, Capital Project Fund, and Enterprise Fund, respectively.

#### ***Recommendation:***

We recommend the City change its approach and use a scope significantly lower than that used by KPMG in performing the audit during the City's process of capturing and recording the liabilities at year-end.

### **Reconciliation of Accounts Payable**

#### ***Comment:***

We noted that the City does not perform a formal fund-by-fund reconciliation from the accounts payable module to the general ledger module on a monthly basis. All funds were not reconciled until year-end. However, on a weekly basis, the accounting staff is responsible for reconciling the following:

1. Posted to accounts payable but not paid
2. Unposted to accounts payable
3. Daily accounts payable cash payments

During our review of the accounts payable reconciliation for six funds, we noted that there were reconciliation differences as of December 31, 2001.

#### ***Recommendation:***

We recommend that a reconciliation process from the accounts payable module subledger to the general ledger be performed on a monthly basis for each fund. In addition, all reconciling items should be resolved and reflected in the general ledger on a timely basis. Monthly reconciliations will help to identify any reconciling items on a timelier basis.



The Common Council  
City of Milwaukee  
May 31, 2002  
Page 3

### **Water Works Reconciliation of Accounts Receivable**

#### ***Comment:***

We noted that the City does not perform a formal reconciliation of accounts receivable balances from the Municipal Utilities Package Software Billing System (MUPS) to the general ledger for the Milwaukee Metropolitan Sewer District User Charge Fund and the Sewer Maintenance Fund. As a result, the December 31, 2001 accounts receivable balances in these funds are not reconciled to the MUPS accounts receivable aged trial balance. We noted unreconciled differences between the general ledger and MUPS which were not material to the City's financial statements.

#### ***Recommendation:***

We recommend the City perform a monthly reconciliation of accounts receivable balances from the MUPS billing system to the general ledger for the Milwaukee Metropolitan Sewer District User Charge Fund and the Sewer Maintenance Fund. Monthly reconciliations will enable the City to identify possible accounts receivable related issues on a timelier basis.

### **Water Works Unbilled Receivable Calculation**

#### ***Comment:***

We noted that the current methodology used by Water Works to estimate its unbilled receivables at year-end does not accurately reflect its current billing methodology. The current analysis appears to understate the unbilled receivables at December 31, 2001.

#### ***Recommendation:***

We recommend that Water Works review its calculation to reflect the current billing methodology and revise where appropriate.

### **Operating Leases**

#### ***Comment:***

We noted that the City does not currently maintain a complete listing of its operating leases. Generally accepted accounting principles (GAAP) require disclosure of future minimum rental payments to be made under noncancelable operating leases (City as lessee), future minimum rental payments to be received under noncancelable sub-leases (City as sub-lessor), and future minimum rental payments to be received under noncancelable operating leases (City as lessor). GAAP also requires the disclosure of total rental expense for each period for which an income statement is presented. The lack of a listing of all operating leases prevents the City from assessing the materiality of this disclosure information.



The Common Council  
City of Milwaukee  
May 31, 2002  
Page 4

***Recommendation:***

We recommend the City develop a procedure to keep track of all of its leases (from a lessee and lessor perspective) and to obtain necessary information for financial statement disclosures.

## GRANT ACCOUNTING

### **Grant Identification Number**

***Comment:***

During our audit, we noted several grant programs did not have a Federal or state identification number. Upon further research, the City was able to obtain the Federal or state identification numbers for almost all grants. We realize that it is a difficult process to ensure that each grant has a Federal or state identification number and that a very limited number of grants do not have these numbers assigned. Not knowing the proper grant identification number may result in not knowing the proper grant compliance requirements, hence, possible non-compliance, fines, and loss of funding.

***Recommendation:***

We recommend the City enhance the procedures to ensure each grant has a proper Federal or state identification number. The procedures should include reviewing the grant agreement, accessing applicable websites, contacting the state or Federal agency, reviewing the state single audit guidelines, etc. as well as the documentation of these inquiries.

### **Grant Accounting Communications**

***Comment:***

During our audit of a grant from the State of Wisconsin to the Port of Milwaukee, (a City Enterprise Fund), we noted that advances were made to a sub-contractor but were recorded directly as a grant expenditure (instead of an advance). We noted that this situation occurred due to a breakdown in communication between the Port of Milwaukee and the grant accounting department.

***Recommendation:***

We recommend that the grant accounting department develop appropriate procedures to ensure that all needed information from the department receiving the grant is obtained on a timely basis.



## INAPPROPRIATE PEOPLESOFT AUTHORITIES

### *Comment:*

During our review of the City personnel who have authorization of access to various approvals within the accounts payable module (from the Purchase through the Payment cycle), we noted a few inappropriate authorizations. The inappropriate authorizations include situations in which FMIS support staff and consultants have access to approve vendors, approve purchase requisitions and purchase orders and approve vouchers.

### *Recommendation:*

We recommend the City review the access list and determine whether these individuals should have the authorizations in question. All inappropriate authorizations should be revoked.

## CHANGES IN THE GOVERNMENT REPORTING MODEL

### *Comment:*

After years of study and consideration of the needs of users of government financial statements, the Governmental Accounting Standards Board (GASB) issued its revolutionary new reporting model in June 1999. This new standard has been described by Tom Allen, the Chairman of GASB, as 'the most significant change in the history of governmental accounting...a dramatic shift in the way state and local governments present financial information to the public.'

In summary, the standard establishes financial reporting standards for state and local governments, including states, cities, towns, villages, and special-purpose governments such as school districts and public utilities. It establishes that the basic financial statements and required supplementary information (RSI) for general-purpose governments should consist of:

- Management's discussion and analysis (MD&A)
- Basic financial statements including government-wide financial statements, fund financial statements, and notes to the financial statements.
- Required supplementary information (RSI)



The Common Council  
City of Milwaukee  
May 31, 2002  
Page 6

Some of the significant changes required within the new standard are the accrual basis government-wide financial statements and the recording of all assets within the financial statements including infrastructure. In the GASB's view, the objective of the new model is to enhance the clarity and usefulness of government financial statements to the citizenry, oversight bodies, investors and creditors. Some of the key aspects of the changes follow:

### ***Management's Discussion and Analysis (MD&A)***

A comprehensive MD&A will now be included as required supplementary information. The MD&A will introduce the financial statements by presenting an analysis of the government's financial performance for the year and its financial position at year-end. The MD&A will be *in addition* to the transmittal letter currently required for Governmental Reporting Awards Through Evaluation (GRATE) and Government Finance Officers Association (GFOA) award candidates.

### ***Government-Wide Reporting***

The City will be required to report financial operations and net assets, not only at the fund perspective for governmental activities, but will also have to prepare statements at the government-wide level. This level will distinguish between government and business type activities. *All* information at the government-wide level will be reported using the economic resources measurement focus and accrual basis of accounting, as enterprise funds do under the current model. Fiduciary activities will be excluded from the government-wide level of reporting. General government fixed assets, *including infrastructure*, and long term liabilities, *including bonded debt*, of the government will need to be reported with all other governmental assets and liabilities.

### ***Statement of Activities***

Governments will now be required to use a "net program cost" format for the government-wide statements instead of a traditional operating statement. This new format groups revenues and expenses by functional categories (such as general government, public safety, highways and streets, sanitation, economic development, culture and recreation, etc.). The purpose of the new statement is to inform readers about the cost of specific functions and the extent to which they are financed with program revenues or general revenues of the government. Governments will have the option of reporting both direct and indirect program costs. Depreciation expense will now generally be reflected as a cost in the statement of activities.



The Common Council  
City of Milwaukee  
May 31, 2002  
Page 7

### ***Fund Level Reporting***

Fund level financial statements will still be required and will provide information about the City's fund types, including fiduciary funds. General capital assets and general long-term liabilities will only be reported at the government-wide level. Fund level reporting will continue to focus on fiscal accountability and reflect the flows and balances of current financial resources. The modified accrual basis of accounting will continue to be used at the fund level, except for proprietary and fiduciary funds which would continue reporting based on economic resources and the accrual method of accounting. A reconciliation between the fund and the government-wide statements will be required on the face of the fund statements. Finally, proprietary fund cash flows statements must be presented using the direct method.

### ***Presentation of Budgetary Information***

The standard requires budgetary statements for the general fund and certain other governmental funds as required supplementary information. The original adopted budget of the City as well as the final revised budget must be presented. Actual results on a budgetary basis will need to be reconciled to the GAAP (generally accepted accounting principles) basis on the face of the statements.

The effective date of the new pronouncement will require implementation by the City for its year ending December 31, 2002. The magnitude of these changes and the time required to prepare for implementation should not be underestimated.

We understand that the City has begun to look at its systems and processes to ensure that the required information will be available to ensure timely implementation. We recommend the City continue to allocate the necessary resources to complete this analysis and consider the cost of required changes to its systems and processes to ensure availability of necessary funds in its future budgets.

It is our understanding that the City is addressing this significant new literature through the education of its staff, developing a process to identify major funds and completing the initial analysis of identifying and valuing all of the City's fixed assets, including its infrastructure.

### ***Property taxes collection for the subsequent year***

Currently, the City uses an expendable trust fund to account for the City's property tax collections for the subsequent year. Under the new Standard, property taxes to be used by the governmental unit itself are to be reported directly in the fund that receives those taxes (GASB Statement No. 34, para. 111). We recommend the City record the subsequent year's tax levy in the funds that will ultimately use these resources according to the guidance stated within the Standard.



The Common Council  
City of Milwaukee  
May 31, 2002  
Page 8

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Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of the Common Council, management, and others within the City.

Very truly yours,

KPMG LLP