AUDIT OF PORT MILWAUKEE CAPITAL ASSETS

CITY OF MILWAUKEE

INTERNAL AUDIT DIVISION

OCTOBER 2020

Agenda

- Audit Scope

- Audit Objectives

- Capital Asset Definition

- Field Work Procedures Overview

- Recommendations

- Questions/Comments

The scope of the audit included Port Milwaukee Capital Asset maintenance, monitoring, and tracking activities from January 1, 2019 to April 30, 2020. Audit activities consisted of interviews, process walkthroughs, and sample testing for the period under review.

AUDIT SCOPE

1. Review and evaluate management controls for sufficiency and effectiveness regarding the recording, tracking, monitoring, and security of Capital Assets including acquisitions, dispositions, capital projects in process, and repairs & maintenance.

2. Ensure that Port Capital Asset activities comply with regulatory standards, ordinances, and contracts as required.

AUDIT OBJECTIVES

- Capital Assets have two characterisitics:
    1. Useful life of greater than 1 year
    2. Unit Cost is $5,000 or greater

- For government accounting purposes, capital equipment generally includes any asset which has been acquired with the intention of being used on a continuous basis and is not intended for sale
    - 1. Examples include:

Land	Boats
Cranes	Railroad Improvements
Fences	Cameras
Timber	Dockwalls

Capital Assets

FIELD WORK PROCEDURES

COMMUNICATED WITH STAFF, REVIEWED PROCESS AND OPERATIONS

- Walkthroughs: Interviewed with Port Team
  - Acquisition, Recording, Tracking
  - Monitoring, Security, and Repairs
  - Database Reconciliation, Disposition, Physical Verification, and Capital Project
- Reviewed processes for Dispositions, Recording, Additions, and Security, and performed a Full Physical Verification

RECOMMENDATIONS

- Observation:
  - ➤ There are no written procedures for key individuals and their job responsibilities

- Risk:
  - ➤ There could be a lack of consistency during personnel transitions without written procedures in place

- Recommendation:
  - ➤ Create a formalized workflow, work instructions, or procedures describing the removal, addition, monitoring, and security of the Capital Assets Processes

Policies and Procedures

- Observation:
  - ➢ Needed security level to protect assets due to proximate public use is unknown
- Risks:
  - ➢ Damage, theft and vandalism is an added, potentially unbudgeted, cost to the city
  - ➢ The damage, theft and vandalism will decrease the value of assets and increase maintenance and repair costs
- Recommendation:
  - ➢ Determine if there are physical security vulnerabilities and create a plan to mitigate the vulnerabilities

Security

- Observation:
  - ➢ Degradation of assets due to climate change affects functionality and life expectancy of Capital Assets

- Risk:
  - ➢ Daily operations are hindered by the degradation and insecurity of assets

- Recommendations:
  - ➢ Utilize grants to hire consultants to create preventative maintenance schedule
  - ➢ Create a preventative maintenance schedule check list for booked Capital Assets

Maintenance Schedule

- Observations:
  - ➢ Multiple users have access to Database
  - ➢ No user access reviews have been performed

- Risks:
  - ➢ Multiple users can cause version control issues to Database
  - ➢ Unauthorized users can make changes to Access Database

- Recommendations:
  - ➢ Port Milwaukee should work with ITMD to limit accessibility to Access Database if the Database will be maintained during Windows version upgrades
  - ➢ Complete a user access review of the Access Database and schedule user access reviews on a periodic basis

Access Database

- Observation:
  - Port uses Access Database for billing and Capital Asset inventory which is an older version and currently not compatible with ITMD computer upgrade

- Risks:
  - Inaccurate reporting of assets will lead to financial reporting inaccuracies
  - Inaccuracy could result in inappropriate financial decisions based on inaccurate reporting of financials

- Recommendations:
  - Reconcile the Operations Access Database and Finance list to the Comptrollers list to help ensure financial reporting integrity

Reconciliation

- Observation:
  - ➢ Physical verification of Capital Assets had not be performed since 2015

- Risk:
  - ➢ Asset existence is unknown without cycle counts or full physical verification

- Recommendations:
  - ➢ Create a physical verification or cycle counting schedule to help ensure consistency in asset reporting
  - ➢ Port Milwaukee should work with the Accounting team to Add, Delete, Confirm, and Change name of Capital Assets based on physical verification results

Physical Verification

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THANK YOU

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APPENDIX

INFORMATIONAL

Results of Testing:

157 (75%) of Capital Assets were confirmed during physical verification.

Category	Assets impacted	Value Impacted
Under 5 k (remove)	25 (10%)	$ 30,625 (.01%)
Need to Confirm*	25 (10%)	$ 6,500,492 (22%)
Remove (old/sold)	14 (6%)	$ 692,037 (2%)
Rename the asset	18 (8%)	$ 292,321 (1%)
TOTAL CAPITAL ASSETS	239	$29,829,362

*Need to confirm items: $4.1M in land (e.g. Asset 101 "made land in the NE1/4") and $1.8M railroad improvements (e.g. Asset 240 "Railroad upgrade Jones Island.") These items are located on Port land, however the exact physical location is unknown.

Post Reporting Follow-Up

Phase 1

- Port executes plan to remediate recommendations

Phase 2

- Internal Audit solicits feedback annually to understand progression of remediation

Phase 3

- Internal Audit reports on the remediation in Quarter 1 in 2021