



**Audit of
Fund Carryover Compliance**

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January 2017

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Office of the Comptroller

January 12, 2017

Honorable Tom Barrett, Mayor
The Members of the Common Council
City of Milwaukee
Milwaukee, WI 53202

Dear Mayor and Council Members:

The attached report summarizes the results of our audit of fund carryover compliance. The scope of the audit included annual carryover of operating accounts, operating grants, and capital projects from budget years 2013 and 2014 within the City's Financial Management Information System. The objective of the audit was to determine if the operating and capital fund carryovers approved by the Common Council are in compliance with Wisconsin state statutes, City charter and ordinances, capital guidelines, and grant and aid guidelines. The audit was initiated through a combination of City-wide risk assessment and by request from Alderman Michael Murphy.

The audit concluded that fund carryovers are in compliance with Wisconsin state statutes and City charter. However, the carryover provisions of City ordinances and capital guidelines should be updated to reflect current practices. The audit report includes two recommendations, and three observations.

Audit findings are discussed in the Audit Conclusions and Recommendations section of this report, which is followed by management's response.

Appreciation is expressed for the cooperation extended to the auditors by the staff of the General Accounting, Revenue and Cost, and Systems Support divisions of the Office of the Comptroller; as well as the Budget and Management Office of the Department of Administration.

Sincerely,

A handwritten signature in black ink that reads "Adam Figon".

Adam Figon, MBA, CRMA
Audit Manager

AF:cr



I. Audit Scope and Objectives

Fund carryover is the practice of using unspent budgetary funds appropriated during one budget year in subsequent year(s), for their originally appropriated purpose. The scope of the audit included carryover of operating accounts, operating grants, and capital projects from budget years 2013 and 2014 within the City's Financial Management Information System (FMIS). The audit does not cover the budget process as a whole, but focuses on operating and capital fund carryovers only.

The audit scope excluded operating grants identified as HOME Investment Partnership and Community Development Block Grants (CDBG) due to their unique nature. These grants are funded by the U.S. Department of Housing and Urban Development (HUD) and are managed by the City's Department of Administration - Community Development Grants Administration. Unlike other operating grants, unspent CDBG funds for completed projects are transferred to a contingency fund rather than being returned to HUD, or allowed to expire. Unspent CDBG funds may also be allocated to other CDBG programs.

The objective of this audit was to determine if the operating and capital fund carryovers approved by the Common Council are in compliance with Wisconsin state statutes, City charter and ordinances, capital guidelines, and grant and aid guidelines.

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for the audit's findings and conclusions based on the audit objectives.

Methodology

Audit methodology included developing an understanding of the processes utilized for authorizing, recording, and tracking fund carryovers. Different carryover rules apply to operating accounts, operating grants, and capital projects. The audit procedures, which were

developed to evaluate compliance with the audit objective, included process walk-throughs, inspection of relevant supporting documentation and system information and testing of compliance as follows:

- *Carryover Rules* - Reviewed Wisconsin state statutes (Wis. Stat.), City charter (CC), City ordinances (CO) and guidelines for carryover requirements and carryover year limits.
- *Carryover Authorization* - Assessed if recorded carryovers were properly authorized, and that all allowable Common Council approved carryovers were recorded.
- *Carryover Limits* - Assessed recorded carryover compliance with carryover year limits.
- *Carryover Entry Accuracy (Operating Accounts)* - Verified the accuracy of carryover journal entries related to the annual carryover resolution.
- *Other Rules Impacting Carryover Compliance (Operating Grants and Capital Projects)* - Assessed compliance with other CO and guideline rules impacting carryover compliance.

See Appendix 1 for instructions regarding obtaining copies of the carryover guidance.

II. Organization and Fiscal Impact

The Revenue and Cost Division (Revenue and Cost) and General Accounting Division (General Accounting) of the Office of the Comptroller provide financial oversight of fund carryovers; however, individual departments are responsible for managing their own operating accounts, operating grants and capital projects. Revenue and Cost provides financial oversight of operating grants and capital projects funded by grants. General Accounting also performs financial oversight of capital projects and the compliance review of funds in accounts included in the annual carryover resolution.

General Accounting maintains the journal entry procedures for reviewing and recording the annual carryover journal entry which includes: operating accounts, contribution accounts, grantor share parent accounts and capital improvement grantor share parent accounts. General Accounting determines whether sufficient funds are available to record the Common Council resolution authorized amounts. Sufficient funds are considered available if the balance of

budgetary funds less budget year expenditures is greater than or equal to the authorized carryover. General Accounting will not record any Common Council resolution authorized carryover that is not both available and in compliance with applicable carryover years limits. General Accounting evaluates carryover compliance using a standard accounting tool, the first-in first-out (FIFO) method, which assumes that carryover will be used BEFORE current year budget appropriation. See Appendix 2 for FIFO carryover calculation examples.

The City of Milwaukee budget period covers a single calendar year in compliance with Wis. Stat. § 65.02 and CC 18-06(14). Wis. Stat. § 65.06(15) and CC 18-06(15) also state that funds subject to the control of the Common Council assigned by the budget to a department, but not expended during the year revert to the general revenues of the City. As a result, the year-end net remaining appropriated balance in an operating account reverts to the tax stabilization fund unless carried forward to the next budget year¹. Both the state of Wisconsin and the City have placed restrictions on the number of years unspent funds are allowed to carryover. These restrictions vary based on the nature of the fund as follows:

Operating Accounts

Operating accounts are used by City departments to record and track expenditures incurred during a year to conduct their operations. These accounts are funded by the annual tax levy. While there is no City ordinance or guideline regarding operating account carryover, Wis. Stat. § 65.07(1)(p) allows the Common Council to authorize, via resolution, up to three carryover years for unspent tax levy funding appropriated to a department. Common Council carryover resolutions authorized total carryover of \$21,037,000 and \$20,306,000 from 2013 and 2014, respectively.

Operating Grants

In 1994, Common Council resolution 94-0843 embedded grant and aid guidelines into CO 304-81 (most recently updated in 2013). CO 304-81(1)(h) defines an operating grant as a non-capital grant whose funds are restricted for a specified purpose or program. The City receives operating grants from other governmental agencies or independent organizations.

¹ City of Milwaukee Comprehensive Annual Financial Report for the Year Ended December 31, 2014, page 89.

A grantor share parent account is created within FMIS by the City for each budget year. Any carryover from the grantor share parent account will be included in the annual Common Council carryover resolution (referred to in *Operating Accounts*, above).

Operating grants are generally awarded to the City for a one year period and last longer if extended by the grantor agency. Operating grants are individually tracked as projects within FMIS. When an operating grant project is setup in FMIS, the Common Council authorized grant amount for the project is transferred from that year's grantor share parent account.

While there is no Wisconsin state statute specifically governing carryover of operating grants, CO 304-81(8)(a) requires Common Council resolution approval to carryover operating grants. The ordinance also limits carryover to three carryover years, or as provided by law. Operating grant project balances carried over from 2013 and 2014 were \$17,856,000 and \$14,538,000, respectively.

Capital Projects

Capital improvements generally include projects to reconstruct, rehabilitate, or otherwise restore an existing system or facility to full functionality or to add to its useful life. They may also include projects to construct a new or more expansive facility to meet increased demands or to enhance economic development through job creation, business formation and housing production. Capital investment may include technology or system enhancements that aid the City in increasing efficiency and cost effectiveness in its operating budget².

Capital projects are often separated into phases (i.e. design and construction), or subprojects for different locations, with separate projects setup within FMIS for each phase. Phases and subprojects are setup with unique project numbers within FMIS that transfer their funding from the parent project instead of from the applicable budgetary parent account (capital improvements parent fund or capital improvements grantor share parent account). Common Council resolution authorization is required for each phase prior to incurring expenses.

² 2014 City of Milwaukee Plan and Budget Summary, page 177.

Wis. Stat. §§ 65.07(1)(q) and 65.07(2) allow the Common Council to accumulate funds for capital projects from year to year without limit. Capital Improvements Budgeting and Administration Guidelines (capital guidelines) restrict carryover of capital projects to a maximum of three years (first year equals year of appropriation) regardless of the source of funds for the project. As a result, capital projects have a two carryover year limit - where the year of appropriation is the first year, the first carryover year is then year two, and the second carryover year is year three.

Non-Grant Funded Capital Projects

There is a single capital improvements parent account within FMIS. Each year the adopted budget amount is added to this fund. At year-end, any unspent funds are automatically carried over to subsequent years. When a non-grant funded capital project is setup within FMIS, the Common Council authorized amount for the project is transferred from the capital improvements parent account.

Grant Funded Capital Projects

A capital improvements grantor share parent account is created within FMIS for each budget year and any carryover from this parent account is included in the annual Common Council carryover resolution (referred to in *Operating Accounts*, above). When a grant funded capital project is setup in FMIS, the Common Council authorized grant amount for the project is transferred from that year's capital improvements grantor share parent account.

General Accounting and Revenue and Cost are responsible for monitoring compliance with applicable Wisconsin state statutes, City Charter chapter, City ordinance, or guideline. Any update to the CC, CO, or guideline must be reviewed and presented by the Budget and Management Office of the Department of Administration (Budget Office) to the Common Council for resolution approval.

III. Audit Conclusions and Recommendations

General Accounting and Revenue and Cost prioritize compliance with Wisconsin state statutes and grantor agency requirements while performing their duties. However, CO and guidelines regarding carryovers of operating grants and capital projects are more stringent than Wisconsin state statutes.

Audit conclusions and recommendations are based upon procedures performed over funds related to operating accounts, operating grants and capital projects. This includes procedures over the annual Common Council carryover authorization resolutions and evaluation of compliance with carryover year limits.

The audit concluded that fund carryovers are in compliance with Wisconsin state statutes and City charter. However, the carryover provisions of City ordinances and capital guidelines should be updated to reflect current practices. The audit report includes two recommendations, and three observations.

This report identifies the following two recommendations to improve compliance with CO and guidelines:

1. The Budget Office should work with Revenue and Cost to update Ordinance 304-81 - Grant Projects and Programs.
2. The Budget Office should work with General Accounting to update the capital guidelines.

The report also includes observations regarding reviewing the CO over contribution account carryovers and referencing the CO in the carryover resolution; how project end dates in FMIS do not agree to the underlying grant agreements; and incorrect referencing of guidelines in the annual budget. While an observation may not constitute a recommendation, it should be taken under advisement. Additional details regarding the recommendations and observations are provided in the following sections of the report.

A. Operating Accounts

Carryover Rules

General Accounting has a documented procedure for the annual carryover journal entry that includes determining the availability of funds and compliance with Wis. Stat. § 65.07 carryover year limits.

Wis. Stat. § 65.07 – key carryover provision pertaining to operating accounts:

- 65.07(1)(p) Tax levy carryover is allowable for up to three additional years if authorized by Common Council resolution.

Carryover Authorization

To assess if operating account carryovers were properly authorized, FMIS was queried to obtain all 2014 and 2015 budget entries. All accounts with carryover entries were agreed to the appropriate carryover authorization resolution, and vice-versa. No exceptions were noted.

However, while the 2013 to 2014 Common Council carryover authorization resolution included \$1.2 million contribution account carryovers, \$29,594 was also carried over without authorization. To establish a consistent policy, General Accounting journal entry procedure was revised prior to the 2014 to 2015 carryover entry to cease recording any contribution account carryovers not approved by Common Council resolution. CO 304-24(6) allows for three carryover years of contribution accounts if General Accounting is notified by the City department managing the contributions. Common Council resolution approval of contribution account carryovers is not required by CO 304-24(6).

After the carryover entry is recorded, the prior year operating accounts are closed and any remaining budgetary funds not carried over are transferred to the tax stabilization fund. The same process applies to any remaining budgetary funds in contribution accounts instead of allowing them to carryover for their original purpose or returning them to the donor.

Observation 1: Review Ordinance 304-24 - Contributions Received by the City; and reference the Ordinance in the annual carryover resolution.

General Accounting and the Budget Office should revisit the CO 304-24(6) contribution account three carryover years limit and its requirement that contribution account balances revert to the tax stabilization fund when not carried over. Consideration should be given to removing the three carryover years limit to allow related initiatives or projects to continue until completion. Consideration should also be given to attempting to return unspent contribution account balances to the donor(s) prior to their transfer to the tax stabilization fund. Finally, Wis. Stat. § 65.07(1)(p) is referenced as the compliance source in the annual carryover resolution support; to provide greater transparency over the carryover limits, consider including a reference to CO 304-24(6) regarding contribution accounts.

Carryover Limit

Ten percent of the authorized carryover account balance from the combined population of the 2013 to 2014 and 2014 to 2015 carryover resolutions were selected for compliance testing. This sample of 19 account carryovers was tested for compliance with the Wis. Stat. § 65.07(1)(p) three carryover years limit. The FIFO method, demonstrated in Appendix 2, was utilized to assess compliance. No exceptions were noted.

Carryover Entry Accuracy

Audit procedures included an assessment of the accuracy of all 2013 to 2014 and 2014 to 2015 carryover journal entries. FMIS queries and Excel were used to recalculate the unexpended budgetary fund balances available for the journal entry. No exceptions were noted.

B. Operating Grants

Carryover Requirements and Limits

The Grant Projects and Programs CO 304-81 covers operating grant carryover year limits.

CO 304-81 – key carryover provisions pertaining to operating grants:

1. 304-81(8)(a) For each grant that has not been completed, the year-end balance in the grant appropriated to a department shall carry forward in accordance with Common Council resolution to the next budget year. The carrying over of unexpended funds shall be limited to 3 years from the year in which the funds were appropriated, or, as provided by law.
2. 304-81(8)(c) All grants shall be closed out in accordance with grantor regulations and the closeout period shall not exceed 120 days from the grant expiration date.
3. 304-81(8)(d) The grant parent accounts may be carried forward to subsequent years by appropriate Common Council action.

Carryover Authorization and Carryover Limit

There is no annual Common Council resolution authorizing the year-end carryover of uncompleted operating grants to comply with CO 304-81(8)(a). However, this provision is not necessary as the Common Council is already informed of operating grant end dates during resolutions authorizing acceptance of grants and related extensions. The 2013 and 2014 year-end operating grant balances reports were obtained and 25 of the operating grants were selected for testing. Twenty-four of the twenty-five selected operating grants included the grant start and end dates within the Common Council resolution authorizing acceptance of the grant. See Recommendation 1 (below).

Grantor Share and Capital Improvements Grantor Share Parent Account Carryovers

Separate grantor share parent accounts for operating grants and capital improvement grants are setup for each budget year. Audit procedures included review of annual Common Council carryover resolutions, obtained during *Operating Accounts* procedures (above), to determine whether grantor share parent account and capital improvements grantor share parent account carryovers were properly authorized. The annual Common Council carryover resolutions were compared to FMIS query of all 2013 and 2014 budget entries to assess if any recorded grantor share parent account and capital improvements grantor share parent account carryovers were properly authorized. A total of \$4.2 million of 2008 and 2013 carryover was recorded in the 2014 capital improvements grantor share parent project account without the Common Council authorization resolution required by CO 304-81(8)(3). See Recommendation 1 (below).

Other Rules Impacting Carryover Compliance – Closeout

Audit procedures tested compliance with the 120 day operating grant closeout period of CO 304-81(c). Of the 25 operating grants sampled, 11 were expired as of testing and 8 of the 11 expired grants sampled were not closed out within 120 days of grant expiration. The practice of keeping a grant open after 120 days is a result of waiting for both invoices not yet received from vendors and the reimbursement check from the granting agency - which can take up to a year or more to arrive. See Recommendation 1 (below).

Additionally, some grant management reports do not include open projects with end dates prior to the report run date. As a result, grant end dates within FMIS are up to a year longer than stated in the underlying grant agreement. In these instances, the actual grant end date is included in the grant project's comment section within FMIS. See Observation 2 (below).

Recommendation 1: The Budget Office should work with Revenue and Cost to update Ordinance 304-81 - Grant Projects and Programs.

The Budget Office should coordinate with Revenue and Cost to update CO 304-81 to reflect the current carryover practices, which are not in violation of Wisconsin state statutes.

- The three carryover years limit over operating grant projects should be modified to automatically allow the carryover of grant funded projects throughout the Common Council authorized grant period, including any Common Council authorized extensions received from the grantor agency. The Common Council carryover authorization resolution requirement is redundant as the Common Council already approves grant start and end dates as part of the grant acceptance resolution process.
- The Common Council carryover resolution authorization requirement over grantor share parent accounts and capital improvements grantor share parent accounts should also be removed or modified to be an informational filing. The existing resolution authorization requirement creates an unnecessary risk that grant funded activities will be delayed, or the activity will not be timely recorded, if there is a gap between the grant start date and the next Common Council meeting.
- CO 304-81(8)(c) should also be updated to clarify that the grant closeout within FMIS must occur within 120 days after receiving the reimbursement check from the grantor

agency. The CO will then reflect the current practice of needing to keep an otherwise completed project open within FMIS while waiting upon the reimbursement check from the grantor agency.

*Grantor Share and Capital Improvements Grantor Share Parent Account Carryovers
(continued)*

Audit procedures also identified a single operating grant project with a 2015 start date that transferred its funding from the 2014 grantor share parent account. This was a unique situation where the grant acceptance resolution had been approved in 2013 and was to start in 2014 (correctly utilizing funding from the 2014 budget) but the agreement was not finalized with the granting agency until 2015. This 2015 post-acceptance resolution modification of the start date caused the grant to be out of compliance with the provision of CC 18-06(14) stating that the budget for a year shall not authorize the expenditure of any funds for the succeeding year (except for indebtedness).

Project periods within FMIS should reflect the budget periods that they are tracking, otherwise a risk is created that projects will transfer funding from incorrect years. For example, the 2013 and 2014 grantor share parent and capital improvements grantor share projects within FMIS were setup for a period of four years, as if three carryover years had been approved. A single-year setup in FMIS would have prevented the error noted in the paragraph above.

Observation 2: Consider updating grant end dates within the Financial Management Information System.

Revenue and Cost should consider reaching out to appropriate individuals about updating FMIS processes and reports to reflect actual grant project end dates within FMIS. Ideally, financial systems are designed to accurately reflect underlying information and transactions. This reduces or eliminates the need to devote time to manually update and review tracking information outside of the financial system. The cost-benefit of any system update should also be taken into account as it may be cheaper for the City to continue current manual review practices in lieu of updating FMIS to reflect actual grant project end dates within FMIS.

C. Capital Projects

Carryover Requirements and Limits

Wis. Stat. §§ 65.07(1)(q) and 65.07(2) allow for the indefinite carryover of capital project funds. CO 304-81 covers carryover authorization for the capital improvements grantor share parent account. Capital guidelines adopted in 1988 cover capital project carryover year limits.

Capital guidelines (resolution 88-1665) - key carryover provisions:

1. Capital guidelines section V.b. The year-end balance in each uncompleted capital project shall be carried over by the Comptroller if in the Comptroller's judgment such carryover is warranted. Carryover is limited to two carryover years regardless of the source of funds.
2. Capital guidelines section VI. The City's external auditors will annually perform a review of compliance with the guidelines.

CO 304-81 – key carryover provision:

1. 304-81(8)(d) The grant parent accounts may be carried forward to subsequent years by appropriate Common Council action.

The 2014 and 2015 annual budgets posted on the City website were referenced when researching CC, ordinance, and guidelines relevant to capital project carryover. The following items were identified:

- The adopted budgets referred to capital guidelines resolution 88-1664³. The correct resolution reference is 88-1665.
- The Capital Improvements Fund section of the adopted budget has a note referring to Grant and Aids Guidelines resolution 66-1893-E⁴ (from 1966). However, Grant and Aids Guidelines were absorbed into CO 304-81 in 1994.

³ 2014 City of Milwaukee Budget, page 166.

⁴ *Ibid.*

Observation 3: The Budget Office should consider updating references to guidelines in the published annual budget.

The Budget Office publishes the annual adopted budget. The Budget Office should annually review references to resolutions, ordinances and guidelines in the budget for accuracy and update as necessary. The Budget Office should also consider including references to the current versions in effect to improve transparency.

Carryover Authorization

Carryover of a capital project, phase, or subproject is based upon the Comptroller's judgment. The capital guidelines do not require this decision to be documented. Instead, open projects are considered to be authorized for carryover by the Comptroller.

Capital Guidelines Updates

Capital guidelines have not been updated since their adoption by Common Council resolution in 1988. As a result, capital guidelines do not reflect changes to the accounting environment or process changes that have been made since that time.

Carryover Limit

The project length for all active projects setup within FMIS with 2013 or 2014 start dates were reviewed by Internal Audit for compliance with the two year carryover limit of the capital guidelines. 70% of the active projects that began during 2013 or 2014 are setup with project periods that exceed the two year carryover limit. As the capital guidelines two year carryover rule is more stringent than any other carryover rule noted while performing this audit (and Wisconsin state statutes allow for capital improvement funds to be carried over until completion), the two year limit is no longer applicable.

Other Rules Impacting Carryover Compliance - External Auditor Review

The annual external auditor review component of the capital guidelines was discussed with CliftonLarsonAllen LLP (CLA), the City's external auditors. CLA procedures over capital projects have focused on adherence to bond restrictions during the annual audit of the City's Comprehensive Annual Financial Report (CAFR). Any exceptions to capital guidelines

identified during procedures are noted; but CLA does not specifically design procedures to test capital guideline compliance. CLA's procedures are appropriate for CAFR audits, but do not satisfy the capital guideline external auditor review requirement.

To comply with the external auditor review provision, CLA would need to be contracted for a separate compliance review report which would result in additional cost to the City. However, this review is unnecessary as capital projects are already subject to external auditing procedures related to the CAFR, the Single Audit over funds received from the Federal Government and internal audits of specific projects or departments.

Recommendation 2: The Budget Office should work with General Accounting to update the capital guidelines.

Up-to-date guidelines promote consistency, define expectations and provide a source of information and direction pertaining to the conduct of standard operations and their related activities regarding a specific process, processes or controls. The Budget Office should coordinate with General Accounting to update the capital guidelines to address any process changes, inconsistencies in the carryover limits and unnecessary elements identified above, as follows:

- The carryover years limit should be extended or removed given the long term nature of capital projects.
- The external auditor review requirement should be removed from the guideline.



Department of Administration
Budget and Management Division

Tom Barrett
Mayor

Sharon Robinson
Administration Director

Mark Nicolini
Budget and Management Director

December 21, 2016

Ref: 16023

Mr. Adam Figon, CRMA
Comptroller's Office
City Hall, Room 404

Subject: Response to the Audit of Fund Carryover Compliance

Dear Mr. Figon:

We appreciate your audit of the Comptroller's Office Fund Carryover Compliance and have provided the following responses to the recommendations:

Recommendation 1: The Budget Office should work with revenue and cost to update Ordinance 304-81 Grant Projects and Programs.

The Budget Office and the Comptroller's Office make every effort to comply with the regulatory requirements of the city's grant awards and city guidelines. We agree with the internal audit recommendations that an update to City Ordinance 304-81 is necessary to reflect the current accounting practices.

The Budget and Management Division will work with the Comptroller's Office to implement the audit recommendations.

Estimated Implementation Date: March 31, 2017

Recommendation 2: Update the capital guidelines.

We agree with the internal audit recommendation that an update to the capital guidelines should occur, in particular to clarify the carryover years limit and to remove the external auditor review requirement.

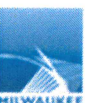
The Budget and Management Division will work with the Comptroller's Office to update the capital guidelines to implement the audit recommendations.

Estimated Implementation Date: March 31, 2017

Sincerely,

Mark Nicolini
Budget and Management Director

ECP:dmr
Grant&Aid/OrdandForms/Audit Response Letter.doc



Martin Matson
Comptroller

Glenn Steinbrecher, CPA
Deputy Comptroller



Toni Biscobing
Special Deputy Comptroller

Aycha Sirvanci, CPA
Special Deputy Comptroller

Office of the Comptroller

January 3, 2017

Adam Figon, MBA, CRMA
Audit Manager
City of Milwaukee, Wisconsin
City Hall, Room 404

Subject: Response to the Audit of Fund Carryover Compliance

Dear Mr. Figon:

The Comptroller's Office is in receipt of the Fund Carryover Compliance audit report conducted by Internal Audit and is submitting the following responses to the audit recommendations:

Recommendation 1: The Budget Office should work with Revenue and Cost to update Ordinance 304-81 – Grant Projects and Programs.

The Comptroller's Office agrees that an update to the City Grant Ordinance 304-81 is required to be consistent with the current accounting practices in place. And, in continuing effort to remain compliant with the grants program requirements, the ordinance has been updated as recommended and a draft copy submitted to the Department of Administration - Budget and Management Division for concurrence and implementation.

Estimated Implementation Date: March 31, 2017

Recommendation 2: The Budget Office should work with General Accounting to update the Capital Guidelines.

The Comptroller's Office is in agreement that the Capital Guidelines should be updated; and, in coordination with the Department of Administration - Budget and Management Division, the audit recommendation will be implemented.

Estimated Implementation Date: March 31, 2017

Sincerely,

Martin Matson
Comptroller

MM:Cio:Cw

CC: Mr. Mark Nicolini-DOA Budget
Mr. Dennis Yaccarino-DOA Budget
Mr. Eric Pearson-DOA Budget

CIO17001

City Hall, Room 404, 200 E. Wells Street, Milwaukee, WI 53202 • Phone (414) 286-3321 • Fax (414) 286-3281

www.milwaukee.gov/comptroller



Appendix 1

*Carryover Guidance*⁵

1. Wisconsin Statute Chapter 65
<http://docs.legis.wisconsin.gov/> → Statutes and Annotations → Functions and Government of Municipalities. → 65. Municipal budget systems
2. City Charter Chapter 18 Budget and Tax Levy
<http://city.milwaukee.gov/cityclerk/ordinances> → Table of Contents → City Charter → 18 Budget and Tax Levy
3. City Ordinance 304 Finance
<http://city.milwaukee.gov/cityclerk/ordinances> → Table of Contents → Code of Ordinances – Volume 3 – Administrative Ordinances → 304 - Finance
4. Capital Improvements Budgeting and Administration Guidelines (not available online) Request a copy of Common Council resolution 88-1665 on microfilm at:
City Records Center, Room B-1
Zeidler Municipal Building
841 N. Broadway Street
Milwaukee, WI 53202
5. Other Resources:
 - a. <http://city.milwaukee.gov/ComprehensiveAnnualFinancial>
 - b. <http://city.milwaukee.gov/Budget> → City Budgets
 - c. <https://milwaukee.legistar.com/legislation.aspx>

⁵ Type the website address into your browser and follow the path indicated.

Appendix 2

Carryover Calculation Examples

This appendix contains two examples of the first-in first-out (FIFO) method that General Accounting uses to assess compliance with carryover year limits for accounts included in the annual Wis. Stat. § 65.07(1)(p) Common Council carryover resolution. The FIFO method assumes that carryover funding in an operating account is used prior to that year's adopted budget funding. A simple way to evaluate if all authorized carryover was used is to compare current year expenditures to carryover from the prior year(s). If current year expenditures were greater than the carryover, then the entire carryover amount was used. If the expenditures were less than the carryover, the difference is eligible for carryover and needs to be examined further to determine if it is compliance with carryover year limits.

Two hypothetical examples are provided to demonstrate this process. In both examples, a department is requesting \$4,000 of office expense account carryover from 2013 to 2014. In the first example, the Common Council authorized carryover is entirely from 2013, one year old, and is recorded by General Accounting. In the second example, the Common Council authorized carryover is four years old and is not recorded by General Accounting.

Example 1 (carryover is one year old):

Office expense carryover from 2012	\$2,000
2013 budgeted office expense	<u>\$7,000</u>
Total Budget	\$9,000
2013 expenditures and encumbrances	<u>\$5,000</u>
Remaining balance	\$4,000 Authorized for carryover to 2014

In Example 1, the 2013 expenditures and encumbrances of \$5,000 was greater than the \$2,000 carryover from 2012. Therefore, the authorized carryover amount of \$4,000 to 2014 was determined to be only one year old.

Example 2 (authorized carryover is four years old):

Office expense carryover from 2012	\$2,000
2013 budgeted office expense	<u>\$3,000</u>
Total Budget	\$5,000
2013 expenditures and encumbrances	<u>\$1,000</u>
Remaining balance	\$4,000 Authorize for carryover to 2014

In Example 2, the 2013 expenditures and encumbrances of \$1,000 was less than the \$2,000 carryover from 2012. The \$1,000 difference (\$2,000 2012 carryover minus \$1,000 2013 expenses and encumbrances) included in the \$4,000 authorized carryover is at least two years old as it was originally from the 2012 adopted budget. This exercise must then be repeated to determine the exact number of years the \$1,000 difference is associated with. Let us assume the breakout of the carryover was as follows:

Carryover Year	Amount
2010	\$ 200 carryover year 4
2011	300 carryover year 3
2012	500 carryover year 2
2013	<u>3,000</u> carryover year 1
	\$4,000 Authorized for carryover to 2014

After performing this analysis, General Accounting determined that \$200 exceeded the Wis. Stat. § 65.07(1)(p) three carryover years limit. As a result, only \$3,800 was recorded by General Accounting in the carryover journal entry.