



KPMG LLP
777 East Wisconsin Avenue
Milwaukee, WI 53202

July 29, 2003

CONFIDENTIAL

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

Dear Council Members:

We have audited the basic financial statements of the City of Milwaukee (a municipality incorporated under the laws of the State of Wisconsin) (the City) as of and for the year ended December 31, 2002 and have issued our report thereon dated July 29, 2003. 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:

Operating Leases

Comment:

We noted the City's listing of operating leases was not complete. 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 subleases (City as sublessor), 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.

Recommendation:

We recommend the City develop procedures to ensure that all leases are submitted to the Comptroller's office. We also recommend the Comptroller's office maintain a comprehensive listing of all leases and the related future payments.





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Capital Assets

Comment:

During our audit of the City's capital assets we noted the following:

- Costs related to closed construction projects remained in construction in progress balances while also being added to other capital asset balances when the projects were closed. This resulted in double capitalization of certain project costs.
- The City does not have a formal method for tracking construction in progress balances in order to add current year costs or transfer costs of closed projects to capital asset balances.
- The City does not have an accurate record of the original or historical cost of City owned land. Additionally, the City does not have a complete listing of land parcels owned by the City.
- The City was unable to provide a rollforward of capital assets balances which included current year additions and retirements with supporting documentation.
- Several machinery and equipment items were included on both the City's capital assets listing and the Department of Public Works' listing, causing items to be double counted.

Sound financial administration in safeguarding the City's capital assets is an important exercise of stewardship responsibilities. The value of the City's assets is substantial and the safeguarding of these assets is the fiduciary responsibility of management. Accurate financial records regarding the City's capital assets are necessary to make informed judgments concerning the costs of providing services to residents. In addition, sound capital asset records provide useful information for evaluating the adequacy of insurance coverage and for planning future acquisitions or dispositions.

Recommendation:

We recommend the following procedures be implemented by the City to improve the record keeping of the City's capital assets:

- A complete physical inventory of capital assets be completed and appropriate historical cost information be researched and/or developed and documented in order to properly value all categories of capital assets.
- A complete schedule of capital asset and construction in progress additions and retirements by category should be maintained based upon historical costs and transfers made throughout the year. Maintenance of this schedule on a current basis will allow for timely and accurate year end reporting.
- The general ledger and detail supporting records should be routinely updated to reflect all capital asset transactions. Furthermore, the assets should be periodically inspected and compared against the records, preferably at fiscal year end. This will provide for adequate safeguarding of assets, control over capital expenditures/expenses, and a basis for determining insurance needs of the City.



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New Accounting Pronouncement

Comment:

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. The City is required to implement the provisions of this Statement for the year ended December 31, 2005. Earlier implementation is encouraged by GASB.

This Statement requires certain disclosures in the financial statements for deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. This Statement also requires disclosure of deposit and investment policies related to the risks.

Recommendation:

We recommend the City review the requirements of this Statement and consider implementing for the year ending December 31, 2004.

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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