



Office of the Comptroller

November 22, 2000

W. Martin Morics, C.P.A.  
Comptroller

John M. Egan, C.P.A.  
Deputy Comptroller

Michael J. Daun  
Special Deputy Comptroller

Anita W. Paretti, C.P.A.  
Special Deputy Comptroller

The Honorable Common Council  
City of Milwaukee  
City Hall – Room 205  
Milwaukee, WI 53202

RE: 1999 Management Letter from Audit by KPMG LLP

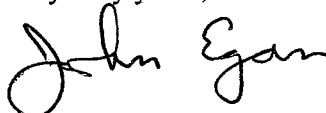
Dear Council Members:

Attached to this communication are copies of the 1999 Management Letter by the City's external audit firm, KPMG pursuant to the 1999 audit contract. The City's external auditor is responsible for providing the City with a report on matters involving internal control and other operational matters with comments and recommendations.

The report addresses two major items: 1) reconciliation of cash and investments and 2) pending implementation of the new Governmental Reporting Model mandated by the Governmental Accounting Standards Board to be effective for the year ending December 31, 2002. A copy of the report has been forward to the City Treasurer.

After reviewing the report and its recommendations, we recommend these reports be placed on file.

Very truly yours,

*for*   
W. MARTIN MORICS  
Comptroller

WMM:BL:

C: Wayne F. Whittow, City Treasurer  
Marianne Walsh. LRB

File:99 management letter to council.let

Room 404, City Hall, 200 East Wells Street, Milwaukee, Wisconsin 53202-3567, Phone: (414) 286-3321, Fax: (414) 286-3281

*c.c. all council members*



777 East Wisconsin Avenue  
Milwaukee, WI 53202

June 9, 2000

**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, 1999 and have issued our report thereon dated June 9, 2000. 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:

**RECONCILIATION OF CASH AND INVESTMENTS**

We noted that the City's cash and investment account reconciliations prepared in the City's Treasurer's office did not reconcile to the general ledger balances recorded by the City's Comptroller's office. It is our understanding that as of the date of this letter, the accounts still have not been completely reconciled for the prior fiscal year (1999) and that the fiscal year 2000 account reconciliations have not been completed at all. Performing basic account reconciliations on all cash and investment accounts is an important internal control over the cash receipt and disbursement process. We recommend that the City allocate the necessary time, attention and resources to the City's Treasurer's office to resolve the unreconciled December 31, 1999 accounts as well as to reconcile all of the accounts for City's 2000 fiscal year.





## CHANGES IN THE GOVERNMENT REPORTING MODEL

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)

Some of the significant changes required within the new standard is 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 Government Finance Officers Association (GFOA) award candidates, but we expect that the GFOA will make changes in their requirements so as to avoid any duplication between the two documents.

*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 of the government will need to be reported with all other governmental assets and liabilities.



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*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 instruction, research, public service, academic support, 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.

*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 recommend that the City begin to look at its systems and processes to ensure that the required information will be available to ensure timely implementation. Further, we recommend that the City 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 beginning to address this significant new literature through the education of staff and by including some monies within the 2001 budget to hire outside expertise to assist the City in the adoption of GASB 34.



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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**