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February 14, 2022

Accounting and Financial Reporting Process Audit

**City of Milwaukee**

**Employees' Retirement System**

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## Background

At the request and direction of the Administration and Operations (A&O) Committee, an audit of the Accounting and Financial Reporting Process and controls for the City of Milwaukee Employees' Retirement System (CMERS) was performed during the period from September 27, 2021, through December 20, 2021. The audit was requested to review, evaluate and test the organization's Accounting and Financial Reporting process against leading practices, test controls and determine whether control deficiencies existed within the internal control environment or whether there were identified control design or operating deficiencies. This audit cannot be relied upon to disclose errors, fraud, or noncompliance with laws and regulations.



# Internal Controls Assessment Objectives and Scope

The objective of the Accounting and Financial Reporting Process Audit was to review, evaluate, and test processes and controls currently in place against leading practices and evaluate operating effectiveness. The focus of the assessment was to address the following risks:

1. Assess the suitability of the design for process and controls over Accounting and Financial Reporting Process, including the inherent risk of inaccurate payments and non-compliance with financial reporting requirements.
2. Assess the governance and accountability over the Accounting and Financial Reporting process, as well as the inherent risks from misappropriation, fraud, and abuse.
3. Compare current state internal controls versus leading practices and test for operating effectiveness.
4. Propose future state changes that mitigate risk or enhance CMERS' internal control structure and outcomes.

**The following processes and sub-processes are in-scope, as well as segregation of duties in each area:**

The objective of the Accounting and Financial Reporting Process Audit included the review of processes and controls related to the design and test of operating effectiveness, including:

1. Procurement and Cash Disbursements Process and Controls
  - a. Vendor Selection
  - b. Procurement Process
  - c. Invoice Review and Approval
2. General Accounting Process
  - a. Journal Entry Review and Approval
  - b. Balance Sheet Reconciliations
  - c. Intra-Government Reimbursement Process
3. Third Party Service Reports review (SSAE SOC-1)
4. Financial Reporting Process
  - a. Financial Statement Compilation and Review Process
  - b. Preparation and Approval of the Annual Budget
  - a. Control over Complex Accounting Spreadsheets
5. Actuarial Reports
  - a. Preparation and Review of Actuarial Data
  - b. Review and Approval Actuarial Reports
6. System Access Restrictions
  - a. User System Access Review and Approval
  - b. Segregation of Duties
7. Organizational Resilience
  - a. Review and Update of Standard Practice Instructions (SPIs)
  - b. Cross Training Procedures



# Procedures Performed

The Accounting and Financial Reporting Process Audit was performed in collaboration with members of CMERS.

As part of the audit, various techniques were used to audit and assess the effectiveness of the internal controls, including:

1. Interviewed members of CMERS
  - Dan Gopalan, Chief Financial Officer
  - Terry Siddiqui, IT Consultant
2. Gathered supporting documents describing current state processes (e.g., policies, procedures, screenshots, flowcharts, reconciliations, analyses, etc.)
3. Gathered evidence and tested CMERS processes and controls for the following functions;
  - Procurement and Cash Disbursement Process
  - General Accounting Process
  - Third Party Service SSAE 18 SOC-1 reviews
  - Financial Reporting process
  - Actuarial reports
  - System Access Restrictions
  - Organizational Resilience
4. Ranked current-state processes against five levels of maturity definition (1. Initial; 2. Repeatable; 3. Defined; 4. Managed; and 5. Optimized)

We would like to acknowledge and thank management with whom we interacted. The time, effort, and discussions they provided were instrumental in our understanding and provided the necessary information to complete our project. During the course of our assessment and audit, management and personnel provided all the materials requested and answered all of our questions promptly. Below is the executive summary of our findings.



## Audit and Assessment Results – Executive Summary

All the established processes and controls that were assessed during the audit were rated as Defined Maturity\*: Management has established defined and documented formalized processes, procedures, and transaction flows that are regularly updated. This level of maturity is considered suitable for these control environments by management and internal audit.

Processes	Control Description	Control Deficiency?	Issues Identified	Process Maturity Level
<b>Procurement and Cash Disbursements Process</b>	Vendors used by CMERS are selected according to City of Milwaukee Purchasing Guidelines. Contracts of a particular size or type require the appropriate review and approval by CMERS management and the City Attorney's Department.	No	None	Defined
	Once selected, the vendor is set-up in PeopleSoft by the City's Purchasing Department. Any subsequent changes to the vendor's profile in PeopleSoft are changed by the City's Purchasing Department.			
	Vendor Invoices are reviewed and approved by the members of management based on an established delegation of authority before they are submitted to the City of Milwaukee for repayment.	No	None	Defined
<b>General Accounting Process</b>	Journal Entries are reviewed and approved by management prior to being recorded in the General Ledger. Each Journal Entry is properly supported with the appropriate documentation.	No	None	Defined
	Balance Sheet Accounts are reconciled during the year and at yearend and are supported by the appropriate documentation. Each reconciliation is reviewed and approved by a member of management, who was independent from preparing the reconciliation.	No	None	
	CMERS follows a defined process when reimbursing the City of Milwaukee for the administrative costs that it incurs during the year. At the end of each month, the reimbursable amount is calculated based on the known administrative expenses incurred during the period. When complete, the reimbursement payment is reviewed by CMERS Management and the City of Milwaukee Comptroller's office.	No	None	

	Note: A technical correction was made to the 2020 Budget Close-Out Memo between CMERS and the City of Milwaukee. All fund transfers were accurate and occurred in a timely manner. The correction was presented to the A&O Committee in December 2021.			
<b>Financial Reporting Process</b>	The Finance Department follows a defined process when gathering the organization's financial information and preparing its Annual Financial Statements and Footnotes. When complete, the financial statements are reviewed by management, CMERS external audit firm and CMERS BOD before they are issued to the public.	No	None	Defined
	The Annual Budget is reviewed and approved by both CMERS management and its BOD.	No	None	
	Management maintains control over key complex accounting and financial reporting spreadsheets that are used in the compilation of CMERS Annual Financial Statements. The spreadsheets themselves are: <ul style="list-style-type: none"> <li>&gt; Found on the Finance Department Network Drive where they can only be accessed by members of the Finance Department.</li> <li>&gt; Password protected to prevent non-financial department personnel from accessing the spreadsheets.</li> <li>&gt; Formulas used in these spreadsheets are Cell Protected from intentional or incidental change.</li> </ul>	No	None	
<b>Third Party Service Reports</b>	Annually, Management documents its review and evaluation of its Third-Party Service Provider Reports (SSAE SOC-1) as evidence that no internal control deficiencies existed that would have posed a risk and impacted CMERS operations.	No	None	Defined
<b>Actuarial Reports</b>	Annually, management prepares and submits membership data so that it can be used by its actuary to calculate the Pension Obligation Liability. Data submitted to the actuary is reviewed in detail and approved by management before being submitted.	No	None	Defined
	The Annual Actuary Report is reviewed and approved by management before it is presented to the CMERS BOD for approval and acceptance.	No	None	

	The Five-Year Experience Study is reviewed and approved by management before it is presented to the CMERS BOD for approval and acceptance. As part of its review, management will review the data with a second Actuary in order to ensure the assumptions and results used in the report are reasonable and accurate.	No	None	
System Access Controls	Employee access to CMERS systems is reviewed by management twice a year to ensure that ERS’s employees and business partners have the appropriate system access and that no “high-risk” Segregation of Duties conflicts exist.	No	None	Defined
Organization Resilience	Standard Practice Instructions (SPIs) are regularly reviewed and updated by management to reflect current processes and controls.	No	None	Defined
	Management regularly cross trains and evaluates department personnel as to their ability to competently perform duties outside of the employee’s current role and responsibilities.	No	None	
PROCESS MATURITY DEFINITIONS				
*DEFINED MATURITY	Policies and processes are established and are reviewed and updated as needed (e.g., annually) to reflect changing business needs; preventive and detective controls are employed but are primarily reliant on manual activities; performance monitoring is performed using a mix of manual and automated processes. <i>See Appendix for all Maturity Definitions.</i>			

***Following the conclusion of our testing of CMERS Internal Control Environment, we identified No Internal Control Deficiencies.***



# Observations, Recommendations, and Management Responses

None.



## Closing

We wish to extend our appreciation to management and staff for their timely cooperation and assistance during the project.

\* \* \* \* \*

This report has been prepared in accordance with Statement of Standards for Consulting Services issued by the American Institute of Certified Public Accountants and is solely for use by management. It is not intended for use, in whole or in part, by outside parties without the specific consent of CliftonLarsonAllen LLP.

*CliftonLarsonAllen LLP*

February 14, 2022



# Appendix

## Maturity Definitions

Capability Level	Capability Description	Capabilities Attribute
<b>5. Optimized</b>	Policies and processes are continuously reviewed and improved within a highly automated control environment.	<ul style="list-style-type: none"> <li>Processes and controls are continuously reviewed and improved</li> <li>Preventive and detective controls are highly automated to reduce human error and cost of operation.</li> <li>Comprehensive, defined performance metrics exist, with extensive automated performance monitoring.</li> <li>Extensive use of best practices, benchmarking, and/or self-assessment to continuously improve process.</li> </ul>
<b>4. Managed</b>	Policies and processes are documented, standardized, regularly updated and controls increasingly use automation.	<ul style="list-style-type: none"> <li>Procedures and controls are well documented and kept current.</li> <li>Preventive and detective controls are employed, with greater use of automation to reduce human error.</li> <li>Many metrics are used with a blend of automated and manual performance monitoring.</li> <li>Best practices and/or benchmarking are used to improve process</li> </ul>
<b>3. Defined</b>	Policies and processes are established and are reviewed and updated as needed (e.g., annually) to reflect changing business needs; preventive and detective controls are employed but are primarily reliant on manual activities; performance monitoring is performed using a mix of manual and automated processes.	<ul style="list-style-type: none"> <li>Procedures are well documented, but not kept current to reflect changing business needs.</li> <li>Preventive and detective controls are employed, still reliant on manual activities.</li> <li>Some metrics are used, but performance monitoring is still manual and/or infrequent.</li> <li>Generally occurs during periodic (e.g., annual) policy and procedure renewal.</li> </ul>
<b>2. Repeatable</b>	Some standard processes are defined and success depends largely on "tribal knowledge" and detective controls.	<ul style="list-style-type: none"> <li>Some standard procedures exist, relies on "tribal knowledge."</li> <li>Mostly detective are in place, minimal preventive controls, and highly manual.</li> <li>Few performance metrics exist, thus performance monitoring is inconsistent or informal.</li> <li>Most likely in reaction to audits or service disruptions.</li> </ul>
<b>1. Initial</b>	Few processes are defined and success depends on individual effort and heroics.	<ul style="list-style-type: none"> <li>No formal procedures exist.</li> <li>Controls are non-existent or primarily in reaction to a "surprise."</li> <li>There are no metrics or performance monitoring.</li> </ul>