

# **CITY OF MADISON**

Madison, Wisconsin

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2016

# CITY OF MADISON

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**REQUIRED COMMUNICATION OF INTERNAL CONTROL RELATED MATTERS  
IDENTIFIED IN THE AUDIT TO THOSE CHARGED WITH GOVERNANCE**

To the Honorable Mayor, Common Council, and Management  
City of Madison  
Madison, Wisconsin

In planning and performing our audit of the financial statements of the City of Madison as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

A separate Report on Internal Control was issued to the Water Utility Board, Transit and Parking Commission, and Community Development Authority. The information contained in those reports is not included with this report.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in the City's internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the City's internal control to be significant deficiencies.

- > Internal Control Over Financial Reporting
- > Information Technology Control Environment

The City's written response to the significant deficiencies identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the city council, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

*Baker Tilly Veitchau Krause, LLP*

Madison, Wisconsin  
June 28, 2017

Auditing standards require that we perform procedures to obtain an understanding of your government and its internal control environment as part of the annual audit. This includes an analysis of significant transaction cycles and an analysis of the year-end financial reporting process and preparation of your financial statements.

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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Properly designed systems of internal control provides your organization with the ability to process and record monthly and year end transactions and prepare annual financial reports.

Our audit includes a review and evaluation of the City's internal controls relating to financial reporting. Common attributes of a properly designed system of internal control for financial reporting are as follows:

- > There is adequate staffing to prepare financial reports throughout and at the end of the year.
- > Material misstatements are identified and corrected during the normal course of duties.
- > Complete and accurate financial statements including footnotes are prepared.
- > Complete and accurate schedules of expenditures of federal and state awards are prepared.
- > Financial reports are independently reviewed for completeness and accuracy.

Our evaluation of the City's internal controls relating to financial reporting has identified control deficiencies that are considered significant deficiencies surrounding the preparation of complete and accurate financial statements and footnotes, adjusting journal entries identified by the auditors, and an independent review of financial reports.

As a result of these deficiencies, management has not prepared financial statements that are in conformity with generally accepted accounting principles. Management should consider what resources and changes are necessary to address and resolve the control deficiencies identified.

### ***Management Response***

Our external audit teams from Baker Tilly, do assist with the preparation of the entity-wide financial statements, combining statements for cash flows, and some of the required footnote disclosures. However, Finance Department staff prepares fund financial statements, conversion entries for the financial statement reconciliations, some footnote disclosures, MD & A, required supplementary information, and the statistical section of the Comprehensive Annual Financial Report (CAFR). We have reviewed, approved, and accepted responsibility for the audited financial statements, and related notes. Additionally, City management does formally review the fund financial statements prior to external audit teams' arrival. We will continue to make progress towards completing the full CAFR annually, but still rely on our auditor's expertise to more efficiently assist us given GFOA's CAFR submission deadline of June 30.

Further, City management hired a professional grant manager during the last quarter of 2016. This position has further established and improved internal controls within the City's ERP software including grant master workflow approvals for applications and project set-up, as well as recording and maintaining reporting effective dates. Written policies and procedures were also developed to better assist and train City agency staff whom are responsible for reporting and requesting both federal and state awards. City staff are currently implementing more formal reviews for grant applications, and management approvals of expenditures and revenues prior to their timely report submissions. It is planned that these reviews and approvals will be monitored semi-annually and/or more frequently during subsequent fiscal periods.

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## INFORMATION TECHNOLOGY CONTROL ENVIRONMENT

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As part of the audit, we reviewed the Information Technology (IT) control environment of the City based on AICPA guidelines. The IT areas reviewed included change management, user access to the network and the financial applications, user access provision and deactivation process, password settings, privileged access, access violation monitoring, data center security, data backup monitoring, and scheduled job processing.

### **OBSERVATIONS AND RECOMMENDATIONS**

The following is a table detailing our observations from the assessment and our recommendations.

| IT Area                                | IT Finding  | Recommendation to Address Finding  |
|--|---|--|
| <i>Backup and Restoration</i>          | <i>Munis data restoration is not tested.</i>  | <i>Proactive restore tests should be performed at least annually to ensure backup can be restored successfully.</i>  |
| <i>Automated / Scheduled Processes</i> | <i>Some automated jobs send out notifications only if the job failed. However, certain system failures prevent the notification from being sent. As a result, some job failure went unnoticed.</i>  | <i>Recommend that the City set up automated jobs to notify one IT personnel of job successes and other IT personnel of job failures.</i>   |
| <i>Unique User Authentication</i>      | <i>Baker Tilly reviewed the MUNIS user list and noted some generic accounts such as cc, fndocs, helpdesk, patest2, and stmap, Baker Tilly reviewed the PLGEO user list and noted some generic accounts such as pl, as, en, bi, tr, pdx, and cd.</i> | <i>Recommend the City review its user lists and remove any generic, shared, temporary, and unnecessary accounts and document the purpose of all necessary system accounts.</i>   |
| <i>Private Information Security</i>    | <i>Payroll information is emailed to employee as a PDF file with the employee's last four social security digit as the password.</i>  | <i>We recommend that the City work with the payroll vendor to email payroll notification with a link that requires employees to log into the vendor portal to access their payroll information and to provide the functionality for employees to change their own passwords.</i> |
| <i>Password</i>                        | <i>Passwords of Cursor, CIS Infinity, and the legacy system PLGEO have weaker settings.</i>   | <i>Recommend that the City change the application password settings to be the same as the City's network password settings where feasible.</i>   |

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**INFORMATION TECHNOLOGY CONTROL ENVIRONMENT (cont.)**

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**OBSERVATIONS AND RECOMMENDATIONS (cont.)**

| IT Area                    | IT Finding   | Recommendation to Address Finding   |
|----------------------------|--|---|
| <i>Privileged Accounts</i> | <i>Changes are approved and tested. However, the developer of the change also implements the change in the production environment.</i> | <i>Segregation of duties should be implemented within the change management process. If not feasible, then code review should be in place to confirm that changes made to production are only those that had been authorized.</i> |

**Management Response**

1. **Backup and Restoration** – Munis data restoration is not tested. Recommendation is that proactive restore tests should be performed at least annually to ensure backup can be restored successfully.

Response: While we don't have a formal backup testing procedure, we are restoring production data from backup to the test environment on an almost weekly basis. We will coordinate with the Finance Department and Tyler Technologies to develop a formal backup testing procedure as soon as practical.

2. **Automated / Scheduled Processes** – Some automated jobs send out notifications only if the job failed. However, certain system failures prevent the notification from being sent. As a result, some job failure went unnoticed. Recommendation is that the City set up automated jobs to notify one IT personnel of job successes and other IT personnel of job failures.

Response: We agree and will explore ways to assess the status of automated jobs as soon as practical.

3. **Unique User Authentication** – Baker Tilly reviewed the MUNIS user list and noted some generic accounts such as cc, fndocs, helpdesk, patest2, and stmap. Baker Tilly reviewed the PLGEO user list and noted some generic accounts such as pl, as, en, bi, tr, pdx, and cd.

Response: For MUNIS, IT will review the generic accounts list with Finance Department staff and Tyler Technologies to determine which accounts can be removed and develop a plan to remove them. The legacy PLGEO system is scheduled for obsolescence as a managed data source in late 2017.

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## INFORMATION TECHNOLOGY CONTROL ENVIRONMENT (cont.)

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### *OBSERVATIONS AND RECOMMENDATIONS* (cont.)

#### *Management Response* (cont.)

4. **Private Information Security** – Payroll information is emailed to employee as a PDF file with the employee's last four social security digits as the password. Recommendation is the City work with the payroll vendor to email payroll notification with a link that requires employees to log into the vendor portal to access their payroll information and to provide the functionality for employees to change their own passwords.

Response: We agree and will work with the Finance Department and Tyler Technologies to implement this as soon as practical. In regards to password management, employees do have the ability today to change their own passwords for the portal, but not for viewing the PDF file. The latter becomes a moot point if the document is no longer attached to email.

5. **Password** – Passwords of Cursor, CIS infinity, and the legacy system PLGEO have weaker settings. Recommendation is the City change the application password settings to be the same as the City's network password settings where feasible.

Response: Cursor and CIS Infinity are 3<sup>rd</sup> party systems. IT will coordinate with the Finance Department (Cursor) and Water Utility (CIS Infinity) to reach out to those vendors and pursue Active Directory integration. The legacy PLGEO system is scheduled for obsolescence as a managed data source in late 2017.

6. **Privileged Accounts** – Changes are approved and tested. However, the developer of the change also implements the change in the production environment. Recommendation is segregation of duties should be implemented within the change management process. If not feasible, then code review should be in place to confirm that changes made to production are only those that had been authorized.

Response: Complete segregation of duties is not possible due to a small staff size. However, internal code reviews do take place for substantive changes that can affect data integrity. We will work to formalize this. IT staff utilizes a change process that includes an electronic form as part of our call and change tracking system. Changes are detailed, reviewed by affected parties and approved by supervisory staff.



**OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**

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## TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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As part of our audit of your financial statements, we are providing communications to you throughout the audit process. Auditing requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

As this past audit is concluded, we use what we have learned to begin the planning process for next year's audit. It is important that you understand the following points about the scope and timing of our next audit:

- a. We address the significant risks of material misstatement, or noncompliance whether due to fraud or error, through our detailed audit procedures.
- b. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material misstatement of the financial statements or material noncompliance related to federal and state awards whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of financial statements and the federal and state awards and to determine whether they have been implemented. We will use such knowledge to:
  - > Identify types of potential misstatements or noncompliance.
  - > Consider factors that affect the risks of material misstatement or material noncompliance.
  - > Design tests of controls, when applicable, and substantive procedures.

Our audit will be performed in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines*.

We will not express an opinion on the effectiveness of internal control over financial reporting or compliance with laws, regulations, and provisions of contracts or grant programs. For audits done in accordance with the Uniform Guidance, the *State Single Audit Guidelines*, and *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe (a) the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance, (b) the scope of testing internal control over compliance for major programs and major program compliance and the result of that testing and to provide an opinion on compliance but not to provide an opinion on the effectiveness of internal control over compliance and, (c) that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance and the Uniform Guidance and the *State Single Audit Guidelines* in considering internal control over compliance and major program compliance. The paragraph will also state that the report is not suitable for any other purpose.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles or for reporting material noncompliance while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements or to the entity's federal and state awards. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements or material noncompliance, whether caused by errors or fraud, are detected.
- d. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, some of which we also audit.

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## **TWO WAY COMMUNICATION REGARDING YOUR AUDIT (cont.)**

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- e. In connection with our audit, we intend to place reliance on the audit of the financial statements of the Olbrich Botanical Society and Olbrich Botanical Society Foundation, a component unit of the City of Madison, as of December 31, 2017 and for the year then ended completed by Smith and Gesteland. In addition, we intend to place reliance on the audit of the financial statements of the Madison Public Library Foundation, a component unit of the City of Madison, as of December 31, 2017 and for the year then ended completed by SVA Certified Public Accountants, S.C. We also intend to place reliance on the audit of the financial statements of the Madison Parks Foundation, a component unit of the City of Madison, as of December 31, 2017, and for the year then ended completed by Johnson Block and Company, Inc. All necessary conditions have been met to allow us to make reference to the component auditors.

We are very interested in your views regarding certain matters. Those matters are listed here:

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the city council has the responsibility to oversee the strategic direction of your organization, as well as the overall accountability of the entity. Management has the responsibility for achieving the objectives of the entity.
- c. We need to know your views about your organization's objectives and strategies, and the related business risks that may result in material misstatements.
- d. Which matters do you consider warrant particular attention during the audit, and are there any areas where you request additional procedures to be undertaken?
- e. Have you had any significant communications with regulators or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements or the federal or state awards?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the City concerning:

- a. The City's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control?
- b. The detection or the possibility of fraud?

We also need to know if you have taken actions in response to developments in financial reporting, laws, accounting standards, governance practices, or other related matters, or in response to previous communications with us.

With regard to the timing of our audit, here is some general information. We will perform preliminary audit work during the months of October-December, and sometimes early January. Our final fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our audit procedures at our office and may issue drafts of our report for your review. Final copies of our report and other communications are issued after approval by your staff. This is typically 6-12 weeks after final fieldwork, but may vary depending on a number of factors.

Keep in mind that while this communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

We realize that you may have questions on what this all means, or wish to provide other feedback. We welcome the opportunity to hear from you.

**COMMUNICATION OF OTHER CONTROL DEFICIENCIES, RECOMMENDATIONS AND  
INFORMATIONAL POINTS TO MANAGEMENT THAT ARE NOT MATERIAL  
WEAKNESSES OR SIGNIFICANT DEFICIENCIES**

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## **PRIOR YEAR'S POINTS**

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### ***ENTITY-WIDE CONTROLS***

A formal fraud risk evaluation process should be in place. This is a control process that should exist and be performed by either a newly created audit committee or the Board of Estimates.

#### ***Status (12/31/16)***

This recommendation still pertains.

#### ***Management Response***

The City hired an Internal Auditor who reports to the Budget Manager. During the last quarter of 2016, the Internal Auditor worked with department leadership and other key stakeholders to conduct a formal risk assessment that was used to guide the 2017 Audit Workplan. The workplan was presented to the Board of Estimates (as required by City ordinance) at their March 27, 2017 meeting. We have used lessons learned during this first year, to incorporate process improvements to the formal risk assessment moving forward. Progress towards achieving milestones laid out in the annual audit plan, are monitored through bimonthly meetings between the Internal Auditor and Budget Manager. Finance Department staff plan to report back to the Board of Estimates (now Finance Committee) regarding the status of the 2017 Audit Workplan and any relevant findings on a semi-annual basis.

### ***INTERNAL CONTROL ENVIRONMENT***

A portion of the internal control environment is oversight by the governing body. For the City of Madison, the Board of Estimates (BOE) is charged with the responsibility for financial oversight. During 2012, the BOE received a financial status update during the budgeting process. We recommend that budget versus actual information be made available on a regular basis to allow for regular review by those charged with governance. There are many different levels and types of oversight and review possible. City management and the BOE should determine what level of information should be made available, what level of review is appropriate, and how often the reviews should occur.

In addition, financial budgets have not been formally adopted for all governmental funds. Adopting a budget for all funds and making the budget versus actual information available to the BOE will assist them in their governance responsibilities.

#### ***Status (12/31/16)***

Budgets were adopted for all funds. This point has been resolved.

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## INFORMATIONAL POINTS

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### ***GASB UPDATES***

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, your government will have many new standards to evaluate and implement. Here are the standards likely to impact you the most in the upcoming year:

- > GASB 73 includes accounting and reporting for pension plans that are not reported in a trust
- > GASB 74 and 75 are Other Post Employment Benefit (OPEB) standards that parallel the recent pension standards
- > GASB 80 clarifies the presentation requirements for some component units
- > GASB 81 provides guidance for accounting for irrevocable split interest agreements

There are two significant GASB projects drawing to conclusion in 2017. While the implementation dates for these are a few years away, both are anticipated to have significant impacts on many government financial statements:

- > Fiduciary Activities
- > Leases

Looking even further ahead, one of the most significant current GASB projects is the financial reporting model reexamination. The GASB is currently revisiting GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, as well as reporting model-related pronouncements including Statements Nos. 37, 41, and No. 46 and Interpretation No. 6. The GASB has indicated that they are revisiting the following major provisions of these standards: management’s discussion and analysis, government-wide financial statements, fund financial statements, proprietary fund and business-type activity financial statements, fiduciary fund financial statements, budgetary comparisons, and other issues. The first of a series of Invitations to Comment was issued in December 2016. This Invitation to Comment addresses governmental fund topics.

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

Full lists of projects, as well as many resources, are available on GASB’s website which is located at [www.gasb.org](http://www.gasb.org).

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**INFORMATIONAL POINTS (cont.)**

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**WISCONSIN RETIREMENT SYSTEM AND GASB No. 68**

As you begin your second year reporting your pension activity under the requirements of GASB Statement No. 68, let's review how this information affects your financial statements.

Wisconsin Retirement System (WRS) pension information is reported on a one year lag in your financial statements, so current year balances are the WRS amounts reported for the plan year ended December 31, 2015. The following is a summary of the status of the WRS for the current and previous year (amounts are in billions).

|                                   | Current<br>Year 2015 | Previous Year<br>2014 | Change        |
|-----------------------------------|----------------------|-----------------------|---------------|
| Total Pension Liability           | \$ 90.1              | \$ 89.7               | \$ 0.4        |
| Net Assets Available for Benefits | <u>88.5</u>          | <u>92.1</u>           | <u>(3.6)</u>  |
| Net Pension Liability (Asset)     | <u>\$ 1.6</u>        | <u>\$ (2.4)</u>       | <u>\$ 4.0</u> |

As noted above, for the current year, WRS reports a net pension liability compared to a net pension asset for the previous year. Although 2015 contributions to WRS from employers and employees was consistent with the 2014 amounts, net investment income for 2015 decreased from \$4.9 billion to a net loss of \$0.7 billion, a \$5.6 billion swing. This decrease in net investment income was primarily due to declines in investment returns and market values as a result of the 2015 market closing at its lowest point since 2008. In addition, benefit payments increased \$0.3 billion or 6.3% from 2014 to 2015 partially as a result of an additional 6,200 retirees receiving benefits. Your government's proportionate share of the current year net pension liability is reported in your government-wide financial statements.

It should be noted that since the net pension liability (asset) is heavily dependent upon the market value of the net assets available for benefits, increases and decreases in the market can and will significantly change the amounts reported on your financial statements in the future.

**DEPARTMENTAL CONTROLS**

As part of our annual audit process, we focus our efforts on the primary accounting systems, internal controls, and procedures used by the City. This is in keeping with our goal to provide an audit opinion which states that the financial statements of the City are correct in all material respects.

In some cases, the primary system of accounting procedures and controls of the City are supported by smaller systems which are decentralized, and reside within a department or location. In many cases, those systems are as simple as handling cash collections and remitting those collections to the city treasurer. (For example, this would be the case in a typical municipal swimming pool.) In other cases, the department may send invoices or statements of amounts due, and track collections of those amounts in a standalone accounts receivable system. (For example, this would be the case in a typical municipal court.)

Generally, the more centralized a function is, the easier it is to design and implement accounting controls that provide some level of checks and balances. That is because you are able to divide certain tasks over the people available to achieve a higher degree of segregation of duties. For those tasks that are decentralized, it is usually very difficult to provide for proper segregation of duties. Therefore, with one person being involved in most or all aspects of a transaction, you lose the ability to rely on the controls to achieve the safeguarding of assets and reliability of financial records.

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**INFORMATIONAL POINTS (cont.)**

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***DEPARTMENTAL CONTROLS (cont.)***

As auditors, we are required to communicate with you on a variety of topics. Since there is now more emphasis on internal controls and management's responsibilities, we believe it is appropriate to make sure that you are informed about the lack of segregation of duties that may occur at departments or locations that handle cash or do miscellaneous billing. Examples in the City that fit this situation may include the following:

|                       |   |
|-----------------------|---|
| Attorney              | Parking Utility                               |
| Engineering           | Parks   |
| Fire Department       | Planning, Community, and Economic Development |
| Fleet Services        | Senior Center                                 |
| Library               | Streets Division                              |
| Madison Metro Transit | Swimming pool                                 |
| Monona Terrace        | Traffic Engineering                           |
| Municipal Court       |   |

As you might expect, similar situations are common in most governments.

As auditors, we are required to focus on the financial statements at a highly summarized level and our audit procedures support our opinion on those financial statements. Departments or locations that handle relatively smaller amounts of money are not the primary focus of our audit. Yet, because of the lack of segregation of duties, the opportunity for loss is higher there than in centralized functions that have more controls.

Because management is responsible for designing and implementing controls and procedures to detect and prevent fraud, we believe that is important for us to communicate this information to you. We have no knowledge of any fraud that has occurred or is suspected to have occurred within the departments mentioned above. However, your role as the governing body is to assess your risk areas and determine that the appropriate level of controls and procedures are in place. As always, the costs of controls and staffing must be weighed against the perceived benefits of safeguarding your assets.

Without adding staff or splitting up the duties, your own day-to-day contact and knowledge of the operation are also important mitigating factors.



**REQUIRED COMMUNICATIONS BY THE AUDITOR TO THOSE CHARGED WITH GOVERNANCE**

To the Honorable Mayor, Common Council, and Management  
City of Madison  
Madison, Wisconsin

Thank you for using Baker Tilly Virchow Krause, LLP as your auditor.

We have completed our audit of the financial statements of the City of Madison for the year ended December 31, 2016 and have issued our report thereon dated June 28, 2017. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS, THE UNIFORM GUIDANCE, AND THE STATE SINGLE AUDIT GUIDELINES***

The objective of a financial statement audit is the expression of an opinion on the financial statements. We conducted the audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines*. These standards require that we plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements prepared by management with your oversight are free of material misstatement, whether caused by error or fraud. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit does not relieve management or the city council of their responsibilities.

We considered the City of Madison's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Madison's internal control over financial reporting. We also considered internal control over compliance with types of requirements that could have a direct and material effect on a major federal and major state program to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for a major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance.

As part of obtaining reasonable assurance about whether the City of Madison's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, we examined, on a test basis, evidence about the City of Madison's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of its major federal and state programs for the purpose of expressing an opinion on the City of Madison's compliance with those requirements. While our audit provides a reasonable basis for our opinion on compliance, it does not provide a legal determination on the City of Madison's compliance with those requirements.

We have issued a separate document which contains the results of our audit procedures to comply with the Uniform Guidance and the *State Single Audit Guidelines*.

To the Honorable Mayor, Common Council, and Management  
City of Madison

#### ***OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS***

Our responsibility does not extend beyond the audited financial statements identified in this report. We do not have any obligation to and have not performed any procedures to corroborate other information contained in client prepared documents, such as official statements related to debt issues.

#### ***PLANNED SCOPE AND TIMING OF THE AUDIT***

We performed the audit according to the planned scope and timing previously communicated to you in our communication to those charged with governance dated July 15, 2016.

#### ***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES***

##### ***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Madison are described in Note I to the financial statements. As described in Note I to the financial statements, the City of Madison changed accounting policies related to the financial reporting issues related to fair value measurements by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 72, *Fair Value Measurement and Application* and policies related to financial reporting for tax abatements by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 77, *Tax Abatement Disclosures*. Accordingly, the accounting changes have been applied to the current period presented; no retrospective application was necessary. We noted no transactions entered into by the City of Madison during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

##### ***Accounting Estimates***

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

1. The estimate of the self-insurance claims liability, which is based on a historical claims analysis and report prepared by the insurance actuaries.
2. The estimate of the Other Postemployment Benefits (OPEBs) liability, which is based upon information provided to actuaries contracted with by the City.
3. The estimate of allowance for doubtful loans receivables, ambulance receivables and municipal court receivables is based on historical revenues, historical loss levels, and an analysis of individual account collections.
4. Management's estimate of the net pension liability and related deferred outflows and inflows of resources is based on actuarial information obtained from the Wisconsin Retirement System.

We evaluated the key factors and assumptions used to develop all of these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

##### ***Financial Statement Disclosures***

The disclosures in the notes to the financial statements are neutral, consistent, and clear.

To the Honorable Mayor, Common Council, and Management  
City of Madison

***DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT***

We encountered no significant difficulties in dealing with management in performing our audit.

***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatement identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

A summary of uncorrected financial statement misstatements follows this required communication. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

We prepare certain GASB No. 34 conversion entries which are summarized in the "Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position" and the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" in the financial statements.

***DISAGREEMENTS WITH MANAGEMENT***

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***MANAGEMENT REPRESENTATIONS***

We have requested certain representations from management that are included in the management representation letter. This letter follows this required communication.

***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the City of Madison that, in our professional judgment, may reasonably be thought to bear on our independence.

To the Honorable Mayor, Common Council, and Management  
City of Madison

***INDEPENDENCE*** (cont.)

Relating to our audit of the financial statements of the City of Madison for the year ended December 31, 2016, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the City in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, and provided no services to the City other than audit services provided in connection with the audit of the current year's financial statements and nonaudit services which in our judgment do not impair our independence.

- > Financial statement preparation
- > Adjusting journal entries
- > Compiled regulatory reports

None of these nonaudit services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

***OTHER AUDIT FINDINGS OR ISSUES***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Madison's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***OTHER MATTERS***

We applied certain limited procedures to the required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the supplementary information which accompanies the financial statements but is not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on other information which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

To the Honorable Mayor, Common Council, and Management  
City of Madison

***RESTRICTION ON USE***

This report is intended solely for the information and use of the mayor, common council, and management and is not intended to be, and should not be, used by anyone other than the specified parties.

We welcome the opportunity to discuss the information included in this letter and any other matters. Thank you for allowing us to serve you.

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
June 28, 2017

**SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**

## CITY OF MADISON

### SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS December 31, 2016

|                         | Financial Statements Effect –<br>Debit (Credit) to Financial Statement Total |                      |                                      |                        |                           |  |   |                   |                                 |   |
|-------------------------|--|----------------------|--------------------------------------|------------------------|---------------------------|--|---|-------------------|---------------------------------|---|
|                         | Current<br>Assets  | Noncurrent<br>Assets | Total<br>Assets/Deferred<br>Outflows | Current<br>Liabilities | Noncurrent<br>Liabilities | Total Liabilities/<br>Deferred Inflows | Total<br>Net Position/<br>Fund Balances | Total<br>Revenues | Total Expenses/<br>Expenditures | Change in<br>Net Position/<br>Fund Balances |
| Governmental activities | \$ -   | \$ -                 | \$ -                                 | \$ -                   | \$ -                      | \$ -                                   | \$ -                                    | \$ -              | \$ (930,351)                    | \$ -  |
| General fund            | -  | -                    | -                                    | -                      | -                         | -                                      | -                                       | -                 | (930,351)                       | -   |
| Remaining funds         | -  | -                    | (464,250)                            | -                      | -                         | 464,250                                | -                                       | -                 | -                               | -   |



## **MANAGEMENT REPRESENTATIONS**



## Finance Department

David P. Schmiedicke, Finance Director

City-County Building, Room 406  
210 Martin Luther King, Jr. Boulevard  
Madison, Wisconsin 53703  
Phone (608) 266-4671  
Fax (608) 267-8705  
[finance@cityofmadison.com](mailto:finance@cityofmadison.com)  
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June 28, 2017

Baker Tilly Virchow Krause, LLP  
Ten Terrace Court  
P.O. Box 7398  
Madison, WI 53707-7398

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Madison as of December 31, 2016 and for the year then ended for the purpose of expressing opinions as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Madison and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control over financial reporting, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, the following representations made to you during your audit.

### *Financial Statements*

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter.
2. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America. We have engaged you to advise us in fulfilling that responsibility. The financial statements include all properly classified funds of the primary government and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. Significant assumptions we used in making accounting estimates, if any, are reasonable.

6. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with the requirements of accounting principles generally accepted in the United States of America.
7. All events subsequent to the date of the financial statements and for which accounting principles generally accepted in the United States of America require adjustment or disclosure have been adjusted or disclosed. No other events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
9. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
10. There are no known or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. There are no unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with accounting principles generally accepted in the United States of America.
11. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

12. We have provided you with:
  - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as financial records and related data, documentation, and other matters and all audit or relevant monitoring reports, if any, received from funding sources.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  - d. Minutes of the meetings of common council or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. We have disclosed to you results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
14. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
  - a. Management,
  - b. Employees who have significant roles in internal control, or
  - c. Others where the fraud could have a material effect on the financial statements.
15. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, regulators, or others.
16. We have no knowledge of known instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.

17. We have disclosed to you all known related parties and all the related party relationships and transactions of which we are aware.

*Other*

18. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

19. We have a process to track the status of audit findings and recommendations.

20. We have identified to you any previous financial audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

21. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.

22. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.

23. We are responsible for compliance with federal, state, and local laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits, debt contracts, and IRS arbitrage regulations; and we have identified and disclosed to you all federal, state, and local laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.

24. There are no:

- a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
- b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
- c. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
- d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

25. In regards to the nonattest services performed by you listed below, we have 1) accepted all management responsibility; 2) designated an individual with suitable skill, knowledge, or experience to oversee the services; 3) evaluated the adequacy and results of the services performed, and 4) accepted responsibility for the results of the services.

- a. Financial statement preparation
- b. Adjusting journal entries
- c. Compiled regulatory reports
- d. Schedule of federal and state expenditures (SEFSA) modifications

None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.

26. The City of Madison has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
27. The City of Madison has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
28. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any.
29. The financial statements properly classify all funds and activities.
30. All funds that meet the quantitative criteria in GASB Statement No. 34 and No. 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
31. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
32. The City of Madison has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
33. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
34. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
35. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
37. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
38. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
39. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
40. Tax-exempt bonds issued have retained their tax-exempt status.
41. We have appropriately disclosed the City of Madison's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.

42. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
43. With respect to the supplementary information, (SI):
- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.
  - b. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.
44. We assume responsibility for, and agree with, the findings of specialists in evaluating the incurred but not recorded liability and other post-employment benefits accrued and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had impact on the independence or objectivity of the specialists.
45. We assume responsibility for, and agree with, the information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.
46. With respect to federal and state award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines*, including requirements relating to preparation of the schedule of expenditures of federal and state awards (SEFSA).
  - b. We acknowledge our responsibility for presenting the SEFSA in accordance with the requirements of the Uniform Guidance and the *State Single Audit Guidelines*, and we believe the SEFSA, including its form and content, is fairly presented in accordance with the Uniform Guidance and the *State Single Audit Guidelines*. The methods of measurement and presentation of the SEFSA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFSA.
  - c. If the SEFSA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFSA no later than the date we issue the SEFSA and the auditors' report thereon.
  - d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and the *State Single Audit Guidelines* and included in the SEFSA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.

- e. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provide reasonable assurance that we are administering our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relevant to the programs and related activities.
- h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements including when applicable, those set forth in the OMB Compliance Supplement and the *State Single Audit Guidelines*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal and state awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.




- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.
- r. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance and the *State Single Audit Guidelines*.
- u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- v. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- w. We have charged costs to federal and state awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and the *State Single Audit Guidelines* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- z. We are responsible for preparing and implementing a corrective action plan for each audit finding.

Sincerely,

City of Madison

Signed: 

Signed: 

Signed: 

Signed: 