

# **CITY OF WAUKESHA**

Waukesha, Wisconsin

## **COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT**

As of and for the Year Ended December 31, 2013

# CITY OF WAUKESHA

## TABLE OF CONTENTS

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	<u>Page No.</u>
Required Communication of Internal Control Related Matters Identified in the Audit to Those Charged with Governance	1
Internal Control Over Financial Reporting	2
Other Communications to Those Charged with Governance	
Two Way Communications Regarding Your Audit	3 – 5
Communication of Other Control Deficiencies, Recommendations and Informational Points to Management that are not Material Weaknesses or Significant Deficiencies	6 – 12
Required Communications by the Auditor to Those Charged with Governance	13 – 16
Summary of Uncorrected Financial Statement Misstatements	
Management Representations	

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

To the Common Council  
City of Waukesha  
Waukesha, Wisconsin

In planning and performing our audit of the financial statements of the City of Waukesha as of and for the year ended December 31, 2013, 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.

Separate Communications to those Charged with Governance and Management were issued to the Waukesha Water Utility Commission and Waukesha Transit Commission. The information contained in those reports is not included in this letter.

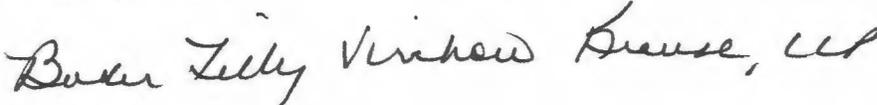
Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist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

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 consider the following deficiency in the City of Waukesha's internal control to be a material weakness:

> Internal Control Over Financial Reporting

The City of Waukesha's written response to the material weakness and the comments and recommendations identified in our audit have not been subjected to auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

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



Milwaukee, Wisconsin  
July 9, 2014

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## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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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 City's year-end financial reporting process and preparation of your financial statements, including schedule of federal and state awards without material errors.

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.
- > Staff is properly trained and knowledgeable to perform all financial reporting functions.
- > 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 and schedules of expenditures of federal and state awards are reviewed by an individual who is not the preparer for completeness and accuracy.

Our evaluation of the City's internal controls relating to financial reporting has identified control deficiencies that are considered material weaknesses surrounding the preparation of complete and accurate financial statements and footnotes and the review of the schedule of expenditures of federal and state awards by an individual who is not the preparer.

As a result of these deficiencies, management is unable to prepare financial statements that are in conformity with generally accepted accounting principles and the schedule of expenditures of federal and state awards is not reviewed for completeness and accuracy by an individual who is not the preparer. Management should consider what resources and changes may be necessary to address and resolve the control deficiencies identified.

### **Management Response:**

The City recognized that this is a material weakness, but current staffing levels do not provide enough resources to complete the statements timely. City Staff does review the prepared financial statements for accuracy and conformity with General Accepted Accounting Principles. The City funded an additional fulltime position in the finance department in 2014, but the position has not been filled. There has been additional training in the finance department in 2013 and 2014 which will be continued in 2015. Beginning in late 2014 or early 2015, the City administrator has set a goal of providing the elected officials with quarterly financial reports.

**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 or material misstatement, 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 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 the financial statements and to determine whether they have been implemented. We will use such knowledge to:
  - > Identify types of potential misstatements.
  - > Consider factors that affect the risks of material misstatement.
  - > Design tests of controls, when applicable, and substantive procedures.

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 *Government Auditing Standards*, our report will include a paragraph that states that the purpose of the report is solely to describe 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 and 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. 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 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. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.
- d. We address the significant risks of material noncompliance, whether due to fraud or error, through our detailed audit procedures.

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

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- e. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material noncompliance related to the 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 the federal and state awards and to determine whether they have been implemented. We will use such knowledge to:
  - > Identify types of potential noncompliance.
  - > Consider factors that affect the risks of material noncompliance.
  - > Design tests of controls, when applicable, and other audit procedures.

Our audit will be performed in accordance with U.S. generally accepted auditing standards, *Government Auditing Standards*, OMB Circular A-133, 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 *Government Auditing Standards*, OMB Circular A-133 and the *State Single Audit Guidelines*, 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 OMB Circular A-133 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.

- f. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important 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 entity's federal and state awards. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material noncompliance, whether caused by error or fraud, is detected.
- g. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

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 Common 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?

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

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- 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 financial audit work during the months of October-December, and sometimes early January. Our final financial audit fieldwork as well as our single audit fieldwork is scheduled during the spring to best coincide with your readiness and report deadlines. After fieldwork, we wrap up our financial audit and single audit procedures at our office and may issue drafts of our report for your review. Final copies of our reports 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 or wish to provide other feedback. We welcome the opportunity to talk with you.

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

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## OTHER COMMENTS AND RECOMMENDATIONS

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### *INFORMATION TECHNOLOGY CONTROLS*

As part of our 2013 audit, we evaluated the information technology (IT) controls as they relate to financially significant applications. Our procedures primarily focused on documenting and evaluating general computer controls, including:

- Logical access to data and applications
- Change and incident management
- Data backup and recovery

The following points contain suggestions for strengthening internal controls in several of these areas:

**Access Review:** Access should be reviewed once a year by management to ensure users don't have access beyond their job responsibilities. Segregation of duties conflicts should also be reviewed. Documentation of these reviews should be maintained and should include the network and all of the financially-significant applications. IT should be the "facilitator" of the access review process which includes generating system user listings and user rights and follow-up on reviews; however, the reviewers of access should be the application owners and/or department heads who know what type of access the users should/should not have in each in-scope system.

**Access Monitoring:** The operating system, database, and applications should be monitored by security administrators to monitor any security violations. In addition there should be a procedure to resolve or escalate any security violations.

**Backup Restoration:** There is currently no formal process in place to periodically test the restoration of backup data. Ad-hoc restores occur as needed. The City should create formal disaster recovery procedures that align with the overall City's Business Continuity Plan.

The following points contain suggestions for strengthening internal controls in the remaining area. It should be noted that the items noted below need to first be addressed adequately by human resources (HR) before IT can do what is needed in the actual system:

**Account Management – Access Creation:** While there were formal on and off boarding policies and procedures created and implemented during the previous years (including requirement for department head sign-off), the City should better enforce compliance with the policies and procedures for account management to the financial applications and network. IT should not be allowed to set up access to the network and/or application without a signed, dated form denoting access types and approval.

**Account Management – Account Termination:** The City continues to struggle to alert IT of terminations so that IT can remove the system access for the respective users. The City should be more proactive alerting IT of terminations and IT should consider a potential automated control for terminations such as linkage to payroll and/or HR system.

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**OTHER COMMENTS AND RECOMMENDATIONS (continued)**

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**Management Response:**

- Logical access to data and applications and access monitoring is being addressed in the 2015 IT budget. The IT department plans to purchase software which will allow the department the ability to see what is being changed, by whom and even when it was changed -down to the file level. The software will allow us to easily run reports and review who has access to what, and highlight exceptions to group policy rules. This will give the IT dept. better monitoring capability into security violations, databases and applications. Reporting will only be run by those assigned as administrators, and automated reports can be sent up the chain so others are also aware.
- Change and incident management is already being addressed. Change management meetings within IT have been established. Coming changes are talked about on a weekly basis, with a "change" form being internally developed. IT is working to integrate this into the Help Desk system for tracking purposes. In 2015 forms and a more formal process should be in place as it is already being developed in 2014.
- Data backup and recovery /Backup Restoration is being addresses in 2014. A new system is being brought online that will allow IT to "sandbox" test recovery strategies. A formal backup restoration strategy is currently being developed.
- Internal Controls; Account Management – Access creation and account termination. On and off boarding policies do exist within city policies, but HR does not have the manpower to administer them. IT finds themselves at a disadvantage when a person is hired or terminated since typically IT is the last to know. However, IT is taking a proactive approach and is planning on integrating Active Directory controls into the various HR systems as budget permits. IT is making best efforts in implementing solutions to this concern.

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**OTHER COMMENTS AND RECOMMENDATIONS (continued)**

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***IMPACT FEES***

The City collects impact fees per State Statute 66.0617. Those impact fees are properly recorded on the financial statements as restricted cash. However, the actual cash is maintained with the City's commingled deposits. Statute 66.6017 specifies that impact fees should be maintained in segregated, interest bearing accounts. We recommend the City make this change going forward.

**Management Response:**

The City will create a separate Impact Fee account to be in compliance with 66.0617 (8).

***CASH COLLECTION EVALUATION***

It was noted during the audit process that there may exist areas within the City where cash is being collected whose activity is not being recorded on the City's books (i.e. vending machine revenue). We would recommend that the City do an evaluation of such areas and determine an efficient and effective procedure for proper handling of these types of funds in the City's accounting system.

**Management Response:**

The vending machine revenue is now being recorded in miscellaneous revenues within the City's General Fund.

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**OTHER COMMENTS AND RECOMMENDATIONS (continued)**

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***LOAN/ACCOUNT RECEIVABLES AND WRITE-OFF'S***

As part of the audit process, we reviewed the balance of and the collections made on the various accounts and loans receivable of the City. We recommend that management evaluate the outstanding receivable balances and determine the probability of collectability, especially those that are CDBG related. If collectability is unlikely, we recommend that an allowance for doubtful accounts be recorded as appropriate or management propose to the common council a write-off of such loans/accounts.

**Management Response:**

The loans provided through the CDBG program are funded through Grant dollars and by nature are risky loans. However, there is no risk to the City for bad debt in this case. When a loan is defaulted on, it is written off and there is just less money available within the revolving loan fund for new loans. The City does not make new loans in advance of collecting on old loans. The City will continue with current practices.

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## **OTHER COMMENTS AND RECOMMENDATIONS (continued)**

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### ***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. 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.

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 some 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.

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 your City that may fit this situation may include the following:

- Recreation
- Police department
- Library

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.

### **Management Response:**

The centralization of financial and accounting procedures would likely require the re-allocation of staff from some existing departments to the finance department. This deficiency was identified as early as 1985 in a study conducted by the firm of Peat Marwick, but little has been done to make this change. The City will reevaluate how it can better centralize financial procedures to improve internal controls.

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## INFORMATIONAL POINTS

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### GASB 67 – 71 Updates

<b>Task or Event</b>	<b>Effective Date</b>	<b>Impact</b>
GASB No. 67 – Financial Reporting for Pension Plans	For fiscal years beginning after June 15, 2013. For the Wisconsin Retirement System this will be for the year ending December 31, 2014	This standard is applicable to the Wisconsin Retirement System (WRS) or the plan itself. This will not have a direct impact on the City.
GASB No. 68 – Accounting and Financial Reporting for Pensions	December 31, 2015	The City belongs to the Wisconsin Retirement System (WRS). The WRS is a cost-sharing, multiple-employer, defined-benefit, public employee retirement system. WRS has represented that it will provide the information necessary for the employers to implement GASB No. 68. The City's share of the net pension liability / asset will be reported in its full-accrual funds and the government-wide financial statements. The footnote disclosures will have significant changes.
GASB No. 69 – Government Combinations and Disposals of Government Operations	December 31, 2014	This standard provides the guidance necessary for government combinations and disposals of government operations.
GASB No. 70 – Accounting and Financial Reporting For Nonexchange Financial Guarantees	December 31, 2015	This standard provides guidance for non-exchange financial guarantees that the City would become involved in.
GASB No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68	December 31, 2015	The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB No. 68 in the accrual-basis financial statements of the City. This will be addressed with the implementation of GASB No. 68.

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**INFORMATIONAL POINTS (continued)**

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**OMB Issues Grant Reform Rules**

The U.S. Office of Management and Budget (OMB) recently issued comprehensive grant reform rules titled "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards." The new requirements consolidate what was previously in eight separate OMB Circulars into a new document being referred to as the "super circular" or "omni-circular".

The grant reform rules are intended to streamline the Federal government's guidance on administrative requirements, cost principles, and audit requirements for federal awards. The final guidance supersedes OMB Circulars A-21, A-50, A-87, A-89, A-102, A-110, A-122, and A-133.

Some of the most significant changes to the administrative requirements include a heightened focus on program performance results, use of technology, standardization of grant documents, and coordinated oversight. The cost principles consolidation includes changes to the definitions of direct and indirect costs, a provision for a de minimis indirect cost rate of 10%, changes to payroll time and effort reporting requirements, and some changes to the allowability of selected cost items. The new rules are expected to be implemented by federal agencies, and pushed out to grant recipients, over the upcoming year.

The reform raises the threshold for a single audit to \$750,000, and also includes some changes to program risk assessments, audit coverage, and reporting of findings. The changes in audit requirements will take effect beginning with years ending December 31, 2015.

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

To the Common Council  
City of Waukesha  
Waukesha, 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 Waukesha for the year ended December 31, 2013 and have issued our report thereon dated July 9, 2014. 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, OMB CIRCULAR A-133 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 Circular A-133, 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 Common Council of their responsibilities.

We will consider the City of Waukesha's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statement and not to provide assurance on the internal control over financial reporting. We will also consider the internal control over compliance with requirements that could have a direct and material effect on a major federal or major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and the State Single Audit Guidelines.

As part of obtaining reasonable assurance about whether City of Waukesha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 is not an objective of our audit. Also, in accordance with OMB Circular A-133 and the State Single Audit Guidelines, we will examine, on a test basis, evidence about City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State Single Audit Guidelines applicable to each of its major federal and major state programs for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of Waukesha's compliance with those requirements.

We will issue a separate document which contains the results of our audit procedures to comply with OMB Circular A-133 and the *State Single Audit Guidelines*.

To the Common Council  
City of Waukesha

#### ***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 prior year Communication to Those Charged with Governance and Management dated July 26, 2013.

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

##### ***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 are described in Note I to the financial statements. As described in Note I to the financial statements, the City changed accounting policies related to inclusion of certain component units in the financial reporting entity and their reporting by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* and changed accounting policies related to reporting certain items previously reported as assets and liabilities by adopting Statement No. 65, *Items Previously Reported as Assets and Liabilities* in 2013. Implementation of these standards had no material impact on the City's financial statements. We noted no transactions entered into by the City 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:

- > Management's estimate of the allowance for doubtful accounts is based on an analysis of the collectivity of individual accounts.
- > Accrued compensated absences are based on anticipated future retirement levels and an average wage per hour based on the current retirees' salaries.
- > Accrued claims for self-insurance is based on actual claims known at year end plus estimates of claims incurred but not reported.
- > Post-employment life and healthcare insurance benefits' actuarial accrued liability which impacts the annual required contributions are based upon several key assumptions that are set by management with the assistance of an independent third party actuary. These assumptions include anticipated investment rate of return, health care cost trends, projected salary increases, mortality and certain cost amortization periods.

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

To the Common Council  
City of Waukesha

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

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

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

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

#### ***CORRECTED AND UNCORRECTED MISSTATEMENTS***

Professional standards require us to accumulate all known and likely misstatements 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.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

We also prepared the 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 auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### ***CONSULTATION 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.

To the Common Council  
City of Waukesha

***INDEPENDENCE***

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

Relating to our audit of the financial statements of the City of Waukesha for the year ended December 31, 2013, 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. We provided no services to the City other than audit services provided in connection with the audit of the current year's financial statements and the following 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'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***

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.

This information is intended solely for the use of the Common Council and management and is not intended to be, and should not be, used by anyone other than these 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.



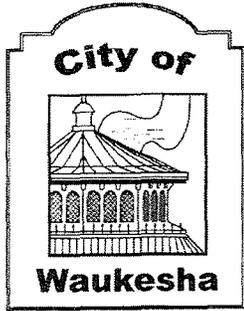
Milwaukee, Wisconsin  
July 9, 2014

**SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**

**City of Waukesha**  
SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS  
As of and for the Year Ended December 31, 2013

	Financial Statements Effect - Debit (Credit) to Financial Statement Total									
	<u>Current Assets</u>	<u>Noncurrent Assets</u>	<u>Total Assets/Deferred Outflows</u>	<u>Current Liabilities</u>	<u>Noncurrent Liabilities</u>	<u>Total Liabilities/Deferred Inflows</u>	<u>Total Net Position/Fund Balances</u>	<u>Total Revenues</u>	<u>Total Expenses/Expenditures</u>	<u>Change in Net Position/Fund Balances</u>
Government Wide Financial Statements										
Governmental Activities	-	-	-	-	-	-	(1,010,450)	-	(1,010,450)	(1,010,450)
Business-Type Activities	-	-	-	-	-	-	(132,972)	-	(132,972)	(132,972)
Fund Financial Statements										
Water Utility Fund	-	-	-	-	-	-	(37,943)	-	(37,943)	(37,943)
Wastewater Utility Fund	-	-	-	-	-	-	(51,931)	-	(51,931)	(51,931)
Parking Utility Fund	-	-	-	-	-	-	(37,869)	-	(37,869)	(37,869)

## **MANAGEMENT REPRESENTATIONS**



## FINANCE DEPARTMENT

201 DELAFIELD STREET  
WAUKESHA, WISCONSIN 53188-3633  
TELEPHONE 262/524-3560 FAX 262/524-3555

Richard Abbott, Finance Director  
rabbott@ci.waukesha.wi.us

July 9, 2014

Baker Tilly Virchow Krause, LLP  
777 E Wisconsin Ave  
32nd Floor  
Milwaukee, WI 53202

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Waukesha as of December 31, 2013 and for the year then ended for the purpose of expressing an opinion 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waukesha 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 are reasonable.
6. 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.
7. 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.
8. 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 taken as a whole. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
10. Guarantees, whether written or oral, under which the City of Waukesha is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

11. 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.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. 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.
14. 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.
15. 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.
16. There are no known related parties or related party relationships and transactions of which we are aware.

*Other*

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
18. We have taken timely and appropriate steps to remedy fraud, violations of laws, regulations, contracts or grant agreements, or abuse that you have reported to us.
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 of Waukesha 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 and debt contracts; 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 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.
  - 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) made all management decisions and performed all management functions; 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

None of these non attest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
26. The City of Waukesha 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 Waukesha has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
28. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
29. The financial statements include all component units and properly disclose all other joint ventures and other related organizations.
30. The financial statements properly classify all funds and activities.
31. 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.
32. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
33. The City of Waukesha has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
34. Provisions for uncollectible receivables have been properly identified and recorded.
35. 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.
36. Revenues are appropriately classified in the statement of activities within program revenues and general revenues program revenues and general revenues.
37. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
38. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.
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 Waukesha'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 how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.
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):

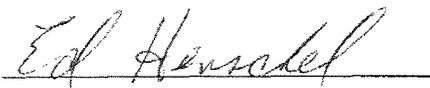
- a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United 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 Other Post Employment Benefits 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 have implemented GASB Statement No. 65 and believe that all deferred outflows and deferred inflows have been identified and properly classified in the financial statements and any other required classifications have been computed in compliance with the Standard.
46. Other
47. 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 Circular A 133, *Audits of States, Local Governments, and Non-Profit Organizations, 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 OMB Circular A-133 §310.b and the State Single Audit Guidelines, and we believe the SEFSA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b 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 OMB Circular A-133 and the *State Single Audit Guidelines* and included in the SEFSA 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 requirements applicable to 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 (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Circular A-133 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 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 OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- 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 in internal control over compliance (including material weaknesses in internal control over compliance) have occurred 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 OMB Circular A-133 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 OMB Circular A-133 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 OMB Circular A-133.
- z. We are responsible for preparing and implementing a corrective action plan for each audit finding.
- aa. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

Sincerely,

City of Waukesha

Signed: 

Ed Henschel, City Administrator

Signed: 

Rich Abbott, Finance Director