

**CITY OF MADISON**

REPORT ON INTERNAL CONTROL

(Including Memorandum on Accounting Procedures,  
Internal Controls, and Other Matters)

December 31, 2007



To the Honorable Mayor and Common Council  
City of Madison

In planning and performing our audit of the financial statements of the City of Madison as of and for the year ended December 31, 2007, 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 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.

Our consideration of the city's internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses.

- Internal Control Over Financial Reporting
- Internal Controls

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

Madison, Wisconsin  
July 28, 2008

A handwritten signature in black ink that reads "Virchow Krause &amp; Company LLP".

# CITY OF MADISON

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## **MATERIAL WEAKNESS – INTERNAL CONTROL OVER FINANCIAL REPORTING**

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As we reported to you last year, we are required to communicate to you about your internal controls. In theory, a properly designed system of internal control staffed with enough people with sufficient training would provide your organization with the ability to not only process and record monthly transactions, but also to prepare a complete set of annual financial statements. Most of our clients do a good job of processing and recording monthly transactions. However, very few have the skills or the time needed to prepare annual financial statements.

The definition of a material weakness in internal control includes consideration of the year end financial reporting process. To avoid the auditor reporting a material weakness in internal control, your system of controls would need to be able to accomplish the following:

1. Present the books and records to the auditor in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures. This is very rare for most of our clients.
2. Be capable of preparing a complete set of year end financial statements for the auditor to test. Currently, almost all of our clients have us prepare the financial statement document. This includes drafting the individual fund statements, making conversion entries, drafting the government-wide statements, and preparing footnote disclosures. Your staff would need to be capable of presenting the auditor with a set of complete financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit.

To accomplish such a high level of internal control over financial reporting is a difficult task for most governments. Many large organizations, such as SEC companies, have been required by law to prepare their own statements for years, and are staffed appropriately to do so. Most governments operate with only enough staff to process monthly transactions and reports, and so rely on us to prepare certain year end audit entries and handle the year end financial reporting. Under the new auditing standards, we must, therefore, inform you that these are material weaknesses in your internal control.

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## **MATERIAL WEAKNESS – INTERNAL CONTROLS**

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As you are likely aware, we performed your current year audit following a lot of new requirements. We asked for a large amount of information about your accounting process and controls. We then performed a number of new audit procedures and inquiries including evaluating the effectiveness of those controls over various transaction cycles. As a result of this new additional work we did, we are able to provide to you information about where your controls over transactions either do not exist, or could be improved.

Below is a list of potential controls that should be in place to achieve a higher level of reliability that errors or irregularities in your processes would be discovered by your staff. Our procedures identified that these controls do not currently exist for the City of Madison. Keep in mind that some of these controls may not be practical due to staffing/resource limitations or other reasons. However, we are required to communicate these to you. In addition, as you make changes within your organization, and we continue to rotate audit procedures, more controls of this kind will likely be communicated to you.

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**MATERIAL WEAKNESS – INTERNAL CONTROLS (cont.)**

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***CONTROLS OVER ACCOUNTS RECEIVABLE/RECEIPTS***

1. There is no adequate review of the reconciliation of the receipts subsystem to the general ledger.

***CONTROLS OVER SPECIAL ASSESSMENTS***

1. Adjustments to the account balances should be approved by someone who does not have access to the special assessment system.

***CONTROLS OVER FINANCIAL REPORTING***

1. Account reconciliations should be performed by someone independent of the processing of transactions in the account.

***ENTITY-WIDE CONTROLS***

1. 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 a finance committee.

Because this is all relatively new information, a next step might be to have a designated person in your organization review these potential controls and make a suggestion on your community's ability and cost (including time) to implement some or all of them.

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**INFORMATION TECHNOLOGY**

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As part of the 2007 audit, we were required to identify the processes in place that provide a controlled information technology (IT) environment for the applications, supporting systems and infrastructure determined to be critical to the financial statement audit. We documented the processes in place for each of the three main areas of focus: manage changes, logical access and IT operations. We then assessed the design effectiveness of each of these processes and noted the following opportunities to strengthen the city's IT controls.

The city does not have a formally documented change management process. We recommend that the city develop formal change management procedures for all program changes, upgrades, system changes, and maintenance. Additionally a standard form (paper or electronic) should be used to request, record and facilitate all changes.

Network passwords are complex and are forced to change every 60 days. Consider applying the same criteria at the application level.

Access rights should be reviewed at least once a year by management to ensure users don't have access beyond their job responsibilities and segregation of duties is maintained. Documentation of this review should be maintained.

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## **INFORMATION TECHNOLOGY (cont.)**

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Server room access is restricted by card access rights. The card access system is maintained by the county. City personnel should review, at least annually, the list of individuals with access to the server room. Server room access reports should also be reviewed regularly to monitor who is accessing the server room and when.

A formal IT job schedule should be created to identify all IT operations including batch jobs to ensure the organization maintains reliable applications.

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## **INFORMATIONAL POINTS**

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### ***PROPOSED GASB CHANGES***

The Governmental Accounting Standards Board (GASB) continues to propose changes to governmental financial reporting. There is one issue which is being studied at this time which will likely affect your financial statements in the future.

This is a proposed change to the definitions used for fund balance reporting.

The GASB is considering changes to fund balance reporting to make it easier for the reader of financial statements to determine reserved fund balance vs. designated fund balance vs. undesignated fund balance. Three different methods of presenting fund balance are being considered. The final standard for these changes has been delayed. Last year at this time it was projected to be out in final the fourth quarter of 2007. Now the final document is expected to be issued in the fourth quarter of 2008.

Last year we noted that this project also included a change in the definition of fund types that would likely impact many governments that uses special revenue, debt service, and capital project funds. GASB continues to discuss ways to make the definitions of the various fund types more meaningful. However, the prospect of widespread reductions in the number of funds that you maintain has greatly diminished from a year ago.

The impact of these changes is not clear at this time. We will keep you informed as we find out more information.

### ***GASB No. 51: ACCOUNTING AND FINANCIAL REPORTING FOR INTANGIBLE ASSETS***

Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software.

Statement No. 51 requires that all intangible assets be classified as capital assets (except for some that are specifically excluded). Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.

That means that you should treat costs incurred for intangible assets the same as you would treat costs incurred for other capital assets like a truck or building. Intangible assets will be written off over their useful life (using amortization).

You are also required to implement the new rules retroactively. That means if you have intangible assets that were acquired in previous years, you will need to go back and determine those costs so that you can record the asset and amortization currently. Assets with indefinite useful lives (such as easements) and internally generated software are exempt from the retroactive calculation.

These new rules are effective for your year ending December 31, 2010. We can assist you with the details of the accounting aspects of this requirement at the appropriate time.

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## **PRIOR YEAR'S POINTS**

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### ***INTERNAL SERVICE FUND DEFICIT***

The city should consider using another fund type for those internal service funds such as worker's compensation where the intention is not to recover all costs, including depreciation, through user charges.

#### ***Status (12/31/07)***

At December 31, 2007, the worker's compensation fund had a deficit balance of \$2,784,777. This fund should be evaluated on its appropriate classification as an internal service fund. A deficit fund balance in internal service funds is not consistent with generally accepted accounting principles.

#### ***NEW AUDITING STANDARD – STATEMENT ON AUDITING STANDARDS (SAS) No. 114 The Auditor's Communication with Those Charged with Governance***

As part of our audit of your financial statements for the year ended December 31, 2007, we were required to follow a significant new auditing standard, or rule.

The new standard establishes requirements and provides guidance to an auditor's communication with those charged with governance in relation to an audit of financial statements. The standard defines those charged with governance as the persons with responsibility for overseeing the strategic direction of the entity and obligations related to accountability of the entity. Most times in local government those charged with governance means the governing body.

Among other things, the SAS directs the auditor to communicate with those charged with governance –

- The auditor's responsibilities under generally accepted auditing standards
- An overview of the planned scope and timing of the audit; and
- Significant findings from the audit.

Regarding the last bullet point, significant findings from the audit, the auditor should communicate:

- The auditor's view about qualitative aspects of significant accounting practices
- Significant difficulties, if any, encountered during the audit
- Uncorrected misstatements
- Disagreements with management, if any
- Other findings or issues

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## **PRIOR YEAR'S POINTS (cont.)**

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### ***NEW AUDITING STANDARD – STATEMENT ON AUDITING STANDARDS (SAS) No. 114 The Auditor's Communication with Those Charged with Governance (cont.)***

Unless all of those charged with governance are involved in managing the entity, the following should also be communicated:

- Material corrected misstatements
- Representations the auditor is requesting from management
- Managements consultations with other accountants
- Significant issues, if any, arising from the audit, or subject of correspondence, with management.

How does this impact the City of Madison? We are providing increased communications to you throughout the audit process. We have included a section in the back of this report to you covering the items noted above. The new requirements provide for two-way communication and are important in assisting the auditor and you with more information relevant to the audit.

In addition, as this 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, 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 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 contain the following restriction: "This report is intended solely for the information and use of the client's management, others within the County, federal and state awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties."

- 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.

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**PRIOR YEAR'S POINTS (cont.)**

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***NEW AUDITING STANDARD – STATEMENT ON AUDITING STANDARDS (SAS) No. 114  
The Auditor's Communication with Those Charged with Governance (cont.)***

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?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?

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. If necessary, we may do preliminary audit work during the months of October-December. 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 new 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.

This is a lot of information to absorb, and we realize that you may have questions on what it means, or wish to provide other feedback. We welcome the opportunity to hear from you.

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## **REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE**

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### ***OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, OMB CIRCULAR A-133 AND THE STATE SINGLE AUDIT GUIDELINES***

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Madison's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We also considered 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 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 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 was not an objective of our audit. Also, in accordance with OMB Circular A-133 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 *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 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, it does not provide a legal determination on the City of Madison's compliance with those requirements.

### ***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 letter about planning matters dated February 4, 2008.

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**REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (cont.)**

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***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES******Accounting Policies***

Management has the responsibility for 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 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. 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.

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 financial statements are neutral, consistent, and clear.

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

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

***AUDIT ADJUSTMENTS***

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.

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City of Madison's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated.

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**REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (cont.)**

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**AUDIT ADJUSTMENTS (cont.)**

Certain audit adjustments we prepared were included in your financial statements. Copies of these adjustments are available from management.

In addition, the attached schedule summarizes uncorrected misstatement of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The following audit adjustments, in our judgment, indicate matters that could have a significant effect on the City of Madison's financial reporting process:

	<u>Amount</u>
Adjustments to accounts receivable	\$ 382,407
Adjust capital contributions	204,731

**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.

**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 is attached.

**INDEPENDENCE**

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

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**REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE (cont.)**

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***INDEPENDENCE (cont.)***

Relating to our audit of the financial statements of for the year ended December 31, 2007, Virchow, Krause & Company, LLP hereby confirms in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, that we are, in our professional judgment, independent with respect to the City of Madison and provided no services to the City of Madison other than 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
- Tax 16 preparation
- Allied drive housing market study

***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.

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**CLOSING**

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This report is intended solely for the information and use of the finance committee 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.

# CITY OF MADISON

## SUMMARY OF PASSED ADJUSTING JOURNAL ENTRIES December 31, 2007

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	Financial Statements Effect – Increase (Decrease) to Financial Statement Total		
	Total Assets	Total Liabilities	Excess of Revenues Over Expenditures/ Expenses
Governmental Activities	\$ -	-	\$ (123,404)
Business-type Activities	-	-	(6,000)
General Fund	-	(35,290)	-
Monona Terrace	-	-	(6,000)
Remaining Funds	-	-	(123,404)



## Office of the Comptroller

Dean Brasser, City Comptroller

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July 28, 2008

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

Dear Virchow, Krause, & Company, LLP:

We are providing this letter in connection with your audit of the financial statements of the City of Madison as of December 31, 2007 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 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, and preventing and detecting fraud.

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

1. 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 oversight unit and all component units required by accounting principles generally accepted in the United States of America to be included in the financial reporting entity.
2. We have made available to you all -
  - a. Financial records and related data (and all audit or relevant monitoring reports, if any, received from funding sources.)
  - b. Minutes of the meetings of the city council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or the schedule of expenditures of federal and state awards.
5. 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.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
  - 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.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. The city has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
10. The following, if any, have been properly recorded or disclosed in the financial statements:
  - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
  - b. Guarantees, whether written or oral, under which the municipality is contingently liable.
  - c. All accounting estimates (including fair value measurements), that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.

11. We are responsible for compliance with the 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 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, including legal and contractual provisions for reporting specific activities in separate funds.
12. There are no -
  - a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, laws or regulations including those pertaining to adopting and amending budgets, 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. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*.
13. 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.
14. 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.
15. 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.
16. The financial statements properly classify all funds and activities.
17. 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.
18. Net asset components (invested in capital assets, net of related debt; restricted; and unrestricted) and fund balance reserves and designations are properly classified and, if applicable, approved.
19. Provisions for uncollectible receivables have been properly identified and recorded.

20. 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.
21. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
22. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
23. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
24. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
25. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
26. We assume responsibility for, and agree with, the findings of specialists in evaluating the incurred but not reported liability and other postemployment liabilities 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.
27. We understand that, as part of your audit, you prepared adjusting journal entries and acknowledge that we have reviewed and approved those entries and understand the impact on the financial statements.
28. We understand that, as part of your audit, you prepared the draft financial statements and related notes from the trial balance. We have designated a competent employee to oversee your services and have made all management decisions and performed all management functions. We have reviewed, approved, and accepted responsibility for those financial statements and related notes and schedule of expenditures of federal and state awards.
29. We have taken timely and appropriate steps to remedy fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that you have reported to us.
30. We have a process to track the status of audit findings and recommendations.
31. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of this audit being undertaken and the corrective actions taken to address significant findings and recommendations.

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

33. With respect to federal and state award programs -

- a. We are responsible for complying 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, the State Single Audit Guidelines, and any other applicable laws and regulations and provisions of contracts and grant agreements.
- b. We have, in accordance with OMB Circular A-133, identified in the schedule of expenditures of federal and state awards, expenditures made during the audit period for all awards provided by federal and state agencies in the form of grants, federal and state cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, food commodities, direct appropriations, insurance and other assistance received for the purpose of administering federal and state programs. We have also made records available to you relating to such financial awards received directly, as well as indirectly, as pass-through awards.
- c. We are responsible for complying 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.
- d. 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 managing 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 system to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to reportable conditions including material weaknesses reported in the schedule of findings and questioned costs.
- e. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relating to each major federal and state program.

33. (cont.)

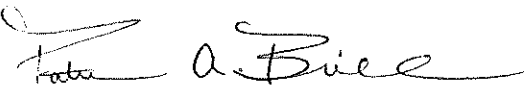
- f. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- g. We have complied, in all material respects, with the compliance requirements, including when applicable, those set forth in the OMB Circular A-133 Compliance Supplement and 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, including the results of other audits or program reviews.
- h. 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.
- i. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- j. We have charged costs to federal and state awards in accordance with applicable cost principles.
- k. We have made available to you all documentation related to the compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- l. 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, and are prepared on a basis consistent with the schedule of expenditures of federal and state awards.
- m. 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.
- n. 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.
- o. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of a subrecipient's auditor's report that identifies 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.
- p. We have considered the results of subrecipients' audits and made any necessary adjustments to our books and records.


- q. 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.
- r. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133, and we are responsible for preparing and implementing a corrective action plan for each audit finding.
- s. 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.

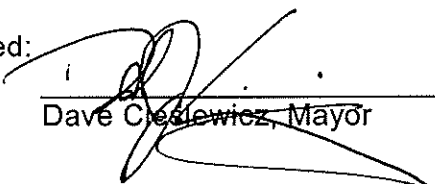
To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Sincerely,

CITY OF MADISON

Signed:   
Patricia A. Brill CPA, Accounting Services  
Manager

Signed:   
Dean Brasser, Comptroller

Signed:   
Dave Cieslewicz, Mayor