

June 30, 2011

Transit and Parking Commission  
City of Madison  
210 Martin Luther King, Jr. Blvd., Room 406  
Madison, WI 53710

Dear Commissioners:

This letter is to inform you of any comments or recommendations as part of our financial and single audits of the Metro Transit System for 2010 and 2009. The following recommendations we believe can improve the financial reporting and control systems of the transit system.

## **OBSERVATIONS AND RECOMMENDATIONS**

### *JOURNAL ENTRY REVIEW*

Currently, Metro does not have a formally documented journal entry review process. Often times journal entries are prepared, and entered by the same employee. We understand that the detailed review of monthly financial statements and budget to actual reports would identify and correct most errors; however we still recommend a formalized process for the independent review of journal entries by someone other than the preparer be developed and implemented.

## **PRIOR YEAR COMMENTS AND RECOMMENDATIONS**

### *DOCUMENTATION OF YEAR END ACCOUNTING PROCEDURES*

Over the past several years Metro has experienced several transitions within the financial department staff. During the 2008 audit, management posed valid questions related to the accounting for certain unique annual transactions such as the partner subsidy calculation or the accruals for vacation and sick leave. As these transactions are only calculated at year end, we recommend that management create a system of other information that would be helpful from year to year. These can be used during the year end process and updated annually as needed based on contractual changes or new accounting standards.

### *Status 12/31/10*

The consistency in Metro's finance department staff over the last few years has allowed management to develop more consistent year end procedures that they hope to document during 2011.

## **INTERNAL CONTROLS**

In planning and performing our audit of the financial statements of the Metro Transit System as of and for the year ended December 31, 2010, 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 opinion 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 Metro's internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified.

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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

We welcome any comments or questions you have regarding your system of internal controls.

## **COMMUNICATIONS TO AUDIT COMMITTEE (TRANSIT COMMISSION)**

We have completed our audit the financial statements of the Metro Transit System of Madison, Wisconsin for the years ended December 31, 2010 and 2009, and have issued our report thereon dated June 30, 2011. This letter represents 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 commission of their responsibilities.

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.

**COMMUNICATIONS TO AUDIT COMMITTEE (TRANSIT COMMISSION) (cont.)**

***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 (cont.)***

As part of obtaining reasonable assurance about whether Metro Transit System'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 Metro Transit System'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 Metro Transit System's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Metro Transit System's compliance with those requirements.

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

***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 the city council in our planning letter.

***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 Metro Transit System 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 2010. We noted no transactions entered into by the Metro Transit System 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.

**COMMUNICATIONS TO AUDIT COMMITTEE (TRANSIT COMMISSION) (cont.)**

***QUALITATIVE ASPECTS OF THE ENTITY'S SIGNIFICANT ACCOUNTING PRACTICES (cont.)***

***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:

- > The estimate of the Other Postemployment Benefits (OPEBs) liability, which is based upon information provided by actuaries contracted with by the City.
- > The estimate of accrued sick leave which is based on a historical usage analysis completed 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 difficulties in dealing with management in performing our audit.

***AUDIT ADJUSTMENTS***

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.

Management has corrected all such misstatements. 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.

***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.

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**COMMUNICATIONS TO AUDIT COMMITTEE (TRANSIT COMMISSION) (cont.)**

***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 Baker Tilly Virchow Krause, LLP and Metro Transit System of Madison that, in our professional judgment, may reasonably be thought to bear on our independence.

Relating to our audit of the financial statements of for the year ended December 31, 2010, Baker Tilly Virchow Krause, 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 Metro and provided no services to the Metro other than services provided in connection with the audit of the current year's financial statements and the following:

- > NTD report certification

***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 Metro Transit System's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Transit and Parking Commission 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.

**CLOSING COMMENT**

Thank you for allowing us to be of service to the City of Madison and its transit system. We also wish to thank your staff for their cooperation and assistance during the audit process. If you have any questions on our comments and recommendations, please contact us.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

*Baker Tilly Virchow Krause LLP*



## Metro Transit

Chuck Kamp, Transit General Manager

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June 30, 2011

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

In connection with your audit of the financial statements of Madison Metro Transit System as of December 31, 2010 and 2009 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of Madison Metro Transit System in conformity with accounting principles generally accepted in the United States of America, we confirm that we are responsible for the fair presentation in the financial statements of financial position, results of operations, and cash flows. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, 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.

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.
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 Transit and Parking Commission and 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 accounting records underlying the financial statements.
5. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or net assets.
6. All known audit and bookkeeping adjustments have been included in our financial statements.

7. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.
8. 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.
9. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, short sellers, or others.
10. The following have been properly disclosed in the financial statements:
  - a. Joint ventures and related party transactions and related accounts receivable or payable, including revenues, expenditures, loans, transfers, leasing agreements and guarantees.
  - b. Guarantees, whether written or oral, under which Madison Metro Transit System is contingently liable.
  - c. Arrangements with financial institutions involving repurchase, reverse repurchase, or securities lending agreements, compensating balances, collateral agreements or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
  - d. Agreements to repurchase assets previously sold.
11. There are no –
  - a. Violations or possible violations of budget ordinances, grant contract provisions, laws or regulations including those pertaining to adopting and amending budgets 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.
  - b. Other material liabilities or gain or loss contingencies that are required to be accrued or disclosed by Statement of Financial Accounting Standards No. 5.

12. We are responsible for compliance with laws and regulations; and we have identified, and disclosed to you, all laws and regulations that have a direct and material effect on the determination of financial statement amounts. We have complied with all aspects of laws, regulations, and contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
13. There are no outstanding claims or assessments, including unasserted claims or assessments, that our lawyer has advised us are probable of assertion and must be disclosed in accordance with Statement of Financial Standards No. 5.
14. There are no material transactions that have not been properly recorded in the financial statements or schedule of expenditures of federal and state awards.
15. Madison Metro Transit System has satisfactory title to all owned assets, and there are no liens on such assets nor has any asset been pledged.
16. No events have occurred subsequent to the balance sheet date that would require adjustment to, or disclosure in, the financial statements or schedule of expenditures of federal and state awards. Also, no changes have occurred in the organization's internal control system or in other factors that might significantly affect the internal control system, including corrective action taken by management with regard to reportable conditions.
17. We have identified all accounting estimates that could be material to the financial statements, including the key factors and significant assumptions underlying those estimates, and we believe the estimates are reasonable in the circumstances.
18. Net asset components (invested in capital assets, net or related debt; restricted; and unrestricted) are properly classified.
19. Provisions for uncollectible receivables have been properly identified and recorded.
20. Interfund activity, transfers and balances have been appropriately classified and reported.
21. Special and extraordinary items are appropriately classified and reported.
22. Deposits and investment securities are properly classified in category of custodial credit risk.
23. Capital assets are properly capitalized and depreciated.
24. Required supplementary information (RSI) is measured and presented within prescribed guidelines.
25. We understand that, as part of your audit, you prepared and acknowledge that we have reviewed and approved those entries and understand the impact on the financial statements.

26. With respect to federal and state award programs –

- a. We are responsible for complying with the requirements of the Single Audit Act Amendments of 1996 and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and 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 in the form of grants, 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 have identified, and complied with in all material respects, the compliance requirements set forth in the OMB Circular A-133 Compliance Supplement as they relate to the programs identified as major programs in the schedule of expenditures of federal awards.
- d. Amounts claimed or used for matching were determined in accordance with relevant guidelines in OMB Circular A-87, *Cost Principles for State, Local Governments and Tribal Governments*, and OMB's *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- e. We are responsible for establishing and maintaining 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 reported in the schedule of findings and questioned costs.
- f. 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.
- g. We have identified and disclosed to you all amounts questioned, as well as known violations or requirements that, if not complied with, could have a material effect on a program identified as major in the schedule of expenditures of federal awards.
- h. We have received no requests from a federal agency to audit one or more specific programs as a major program. 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.
- i. 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*.
- j. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

- 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 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 understand that we are responsible for creating and implementing a corrective action plan for each audit finding identified in your report.
27. 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.
28. To the best of our knowledge and belief, the information included in the National Transit Database Report, both financial and statistical, is accurate, factual and fulfills the reporting requirements of Madison Metro Transit System.

Signed: Charles J. Kamp

Title: Transit General Manager

Signed: Wayne Blae

Title: Transit Finance Manager

Signed: R. David Bae

Title: Transit Planning & Scheduling Manager