



**COMMUNITY DEVELOPMENT AUTHORITY  
OF THE CITY OF MADISON**  
(A Component Unit of the City of Madison, Wisconsin)

INDEX

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	<u>Page No.</u>
Material Weakness – Internal Control Over Financial Reporting	1
Financial Position	2
Two Way Communication Regarding Your Audit	2
Required Communications To Those Charged With Governance	4



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Commissioners  
Community Development Authority of the City of Madison  
Madison, Wisconsin

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information for the Community Development Authority (CDA) of the City of Madison, Wisconsin, a component unit of the City of Madison, Wisconsin, as of and for the year ended December 31, 2008, which collectively comprise the CDA's basic financial statements, and have issued our report thereon dated September 3, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the CDA's internal control over financial reporting as a basis for designing our audit 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 the CDA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the CDA's internal control over financial reporting.

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

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 CDA'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 CDA's financial statements that is more than inconsequential will not be prevented or detected by the CDA's internal control. We consider the deficiency described on page 1 to be a significant deficiency in internal control over financial reporting.

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 CDA's internal control.

To the Board of Commissioners  
Community Development Authority of the City of Madison

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency identified above to be a material weakness.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the CDA's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Community Development Authority's written responses to the items identified in our audit have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the CDA board and management, 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.

*Baker Silly Viechow Krause, LLP*

Madison, Wisconsin  
September 3, 2009

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

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As in previous years, we are required to comment on your internal controls. In theory, a properly designed system of internal controls consists of enough people, with sufficient training, to process and record monthly transactions, as well as prepare a complete set of annual financial statements. However, while most entity's staff do a good job of processing and recording monthly transactions, the reality is that very few have the background, training or 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 including the preparation of financial statements. In order for your municipality to avoid this type of material weakness, the system of internal controls would need to be able to accomplish the following:

1. Maintain the CDA's books and records in such a condition that the auditor is not able to identify any material journal entries as a result of our audit procedures.
2. Be capable of preparing a complete set of year end financial statements in such a condition that the auditor is not able to identify any material changes as a result of the audit. A complete set of financial statements include the individual fund statements, all conversion entries, the government-wide statements and footnote disclosures.

This high level of internal control over financial reporting can be a difficult task for governments. As opposed to large private companies, most governments operate with only enough staff to process monthly transactions and reports, and often rely on their auditors to prepare the year end entries and financial reporting. As this is the case with your entity, we are now required to inform you that these are material weaknesses in your internal controls.

### ***Management's Response***

CDA management takes the accuracy of its financial reporting very seriously and will continue to strive to present books, records, and financial statements to our auditors that are free of material journal entries. CDA staff makes every effort to review financial transactions, to follow procedures regarding journal entry postings, and to review prior-years adjusting and reclassifying entries to ensure accurate financial statements that are free of material misstatements.

CDA management is aware that to avoid a material weakness related to its year-end financial reporting process, a complete set of financial statements, conversion entries, and footnote disclosures must be drafted by CDA staff and presented to our auditors in a condition whereby no material changes result from the audit. Because of the CDA's size, management does not believe it is cost effective to hire the additional staff that would be needed to complete these tasks in the very near future.

Currently, CDA staff prepares individual fund statements, conversion entries, and some footnote disclosures. We will continue to make additional efforts to draft the government-wide statements, and to prepare additional footnote disclosures. CDA management is confident that a new accounting system may also aid staff with these tasks, but expects to rely on the assistance of the external audit firm to prepare selected portions of the annual financial statements.

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## FINANCIAL POSITION

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The CDA has ten funds within its reporting entity financial statements. Seven of these funds have negative components of net assets at December 31, 2008 as shown below:

	General Operating Fund	Housing Voucher Fund	West Housing Fund	Parkside Project Fund	Allied Drive Fund	East Housing Fund	Triangle Housing Fund
Invested in capital assets, net of related debt (deficit)	\$ (284,619)	\$ 14,439	\$ 5,427,195	\$ (703,393)	\$1,005,241	\$ 4,192,162	\$3,059,227
Restricted	-	1,062,361	-	874,396	-	-	-
Unrestricted (deficit)	<u>1,040,449</u>	<u>(36,141)</u>	<u>(244,709)</u>	<u>(262,244)</u>	<u>(2,993)</u>	<u>(193,849)</u>	<u>(137,123)</u>
Total Net Assets (Deficit)	<u>\$ 755,830</u>	<u>\$ 1,040,659</u>	<u>\$ 5,182,486</u>	<u>\$ (91,241)</u>	<u>\$1,002,248</u>	<u>\$ 3,998,313</u>	<u>\$2,922,104</u>

We recommend that the CDA establish a long-term financial plan for the CDA to improve its financial position and eliminate these deficits.

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## TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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

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

- a. We address the significant risks of material misstatement, 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 CDA, 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."

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

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- 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.

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 CDA board 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 CDA concerning:

- a. The CDA'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 communication may assist us with planning the scope and timing of the audit, it does not change the auditor's sole responsibility to determine the overall audit strategy and the audit plan, including the nature, timing, and extent of procedures necessary to obtain sufficient appropriate audit evidence.

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

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

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The following section 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. 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 those charged with governance 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.

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

### ***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 report on internal control dated September 3, 2008, and our meeting with you on November 20, 2008.

### ***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 CDA are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the CDA 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.



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

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***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 estimate affecting the financial statements was:

Management's estimate of the allowance for doubtful accounts is based on historical rent revenues, historical loss levels, and an analysis of the collectivity of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is 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***

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 CDA's financial reporting process. Matters underlying adjustments proposed by the auditor could potentially cause future financial statements to be materially misstated.

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

***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, similar to obtaining a "second opinion" on certain situations. 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.

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

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***INDEPENDENCE***

We are not aware of any relationships between Baker Tilly Virchow Krause, LLP and the CDA 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, 2008, 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 CDA and provided no services to the CDA 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

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

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