

**COMMUNITY DEVELOPMENT AUTHORITY  
OF THE CITY OF MADISON**

(A Component Unit of the City of Madison, Wisconsin)

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2016

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

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

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*

Independent Auditors' Report

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

We have audited, 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, the financial statements of the business-type activities, the aggregate discretely presented component units, 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, 2016, and the related notes to the financial statements, which collectively comprise the CDA's basic financial statements, and have issued our report thereon dated June 28, 2017. Our report includes a reference to other auditors who audited the financial statements of Monona Shores and the aggregate discretely presented component units, as described in our report on the CDA's financial statements. The financial statements of Monona Shores and the aggregate discretely presented component units were not audited in accordance with *Government Auditing Standards*.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the CDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDA's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDA's internal control.

Our consideration of the 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

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

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies described on pages 3 through 4 to be significant deficiencies:

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

***Compliance and Other Matters***

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 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*.

***CDA's Response to Findings***

The CDA's written response to the material weaknesses and significant deficiency identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Madison, Wisconsin  
June 28, 2017

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

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

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

As a result of these deficiencies, management has not prepared financial statements that are in conformity with generally accepted accounting principles.

### ***Management Response***

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

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

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## INFORMATION TECHNOLOGY CONTROL ENVIRONMENT

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

### **OBSERVATIONS AND RECOMMENDATIONS**

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

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

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

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

***Management Response***

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

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

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

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

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

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



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## INFORMATION TECHNOLOGY CONTROL ENVIRONMENT (cont.)

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

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

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

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

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

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

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

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

**OTHER COMMUNICATIONS TO THOSE CHARGED WITH GOVERNANCE**

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## TWO WAY COMMUNICATION REGARDING YOUR AUDIT

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

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

- a. We address the significant risks of material misstatement, 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 include a paragraph that states that the purpose of the report is solely to describe the scope of testing of internal control over financial reporting and compliance and the result of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance and that the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering internal control over financial reporting and compliance. The paragraph will also state that the report is not suitable for any other purpose.

- c. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for fair presentation of financial statements in conformity with generally accepted accounting principles while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the financial statements. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material misstatements, whether caused by errors or fraud, are detected.
- d. We address the significant risks or material noncompliance, whether due to fraud or error, through our detailed audit procedures.
- e. We will obtain an understanding of the five components of internal control sufficient to assess the risk of material noncompliance related to the federal and state awards whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. We will obtain a sufficient understanding by performing risk assessment procedures to evaluate the design of controls relevant to an audit of the federal and state awards and to determine whether they have been implemented. We will use such knowledge to:
  - > Identify types of potential noncompliance.
  - > Consider factors that affect the risks of material noncompliance.
  - > Design tests of controls, when applicable, and other audit procedures.

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

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e. (cont.)

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

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

- f. The concept of materiality recognizes that some matters, either individually or in the aggregate, are important for reporting material noncompliance while other matters are not important. In performing the audit, we are concerned with matters that, either individually or in the aggregate, could be material to the entity's federal and state awards. Our responsibility is to plan and perform the audit to obtain reasonable assurance that material noncompliance, whether caused by error or fraud, is detected.
- g. In connection with our audit, we intend to place reliance on the audits of the Monona Shores and the aggregate discretely presented component units of the CDA, as of December 31, 2017 and for the year then ending completed by SVA Certified Public Accountants, S.C. All necessary conditions have been met to allow us to make reference to the component auditors.

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

- a. We typically will communicate with your top level of management unless you tell us otherwise.
- b. We understand that the 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 or grantor agencies?
- f. Are there other matters that you believe are relevant to the audit of the financial statements?

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

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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.

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

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**FINANCIAL POSITION**

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The CDA has twelve funds within its financial statements. Three of these funds have negative components of net position at December 31, 2016 as shown below:

	General Operating Fund	Villager Fund	Parkside Project Fund
Net investment in capital assets	\$ 1,060,437	\$ 10,558,255	\$ 472,723
Restricted for debt	-	-	445,727
Unrestricted (deficit)	<u>(150,219)</u>	<u>(69,037)</u>	<u>(125,194)</u>
Total Net Position	<u>\$ 910,218</u>	<u>\$ 10,489,218</u>	<u>\$ 793,256</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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**INFORMATIONAL POINTS**

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

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

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

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

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

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

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



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

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

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

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

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

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

As part of obtaining reasonable assurance about whether the 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 is not an objective of our audit. Also, in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, we will examine, on a test basis, evidence about the CDA's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of its major federal and state programs for the purpose of expressing an opinion on the 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.

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

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

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

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

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

We performed the audit according to the planned scope and timing previously communicated to you in our prior year Communication to Those Charged with Governance and Management dated July 15, 2016.

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

***Accounting Policies***

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the CDA are described in Note I to the financial statements. As described in Note I to the financial statements, the CDA changed accounting policies related to financial reporting for investments by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the accounting change has been applied to the current period presented; no retrospective application was necessary. 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.

***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.

Management's estimate of the net pension liability and related deferred outflows and inflows of resources is based on actuarial information obtained from the Wisconsin Retirement System. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

***Financial Statement Disclosures***

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

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

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

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

***CORRECTED AND UNCORRECTED MISSTATEMENTS***

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

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

***DISAGREEMENTS WITH MANAGEMENT***

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

***CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, 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 follows this required communication.

***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 the CDA for the year ended December 31, 2016, Baker Tilly Virchow Krause, LLP hereby confirms that we are, in our professional judgment, independent with respect to the CDA in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants, 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

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

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

***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.

***OTHER MATTERS***

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

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

***RESTRICTIONS ON USE***

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

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
June 28, 2017

**SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS**

**COMMUNITY DEVELOPMENT AUTHORITY OF THE CITY OF MADISON**

SUMMARY OF UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

December 31, 2016

	Financial Statements Effect -					Change in Net Position/ Fund Balances
	Debit (Credit) to Financial Statement Total					
	<u>Current Liabilities</u>	<u>Total Liabilities/ Deferred Inflows</u>	<u>Total Net Position/ Fund Balances</u>	<u>Total Revenues</u>	<u>Total Expenses/ Expenditures</u>	
General operating	\$ (12,100)	\$ (12,100)	\$ 12,100	\$ -	\$ 4,456	\$ 4,456

## **MANAGEMENT REPRESENTATIONS**



June 28, 2017

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

## Community Development Authority

Natalie Erdman, Executive Director  
30 West Mifflin St, 8<sup>th</sup> Floor  
Madison, Wisconsin 53703  
ph (608) 267.1992 fx (608) 261.6126  
email [nerdman@cityofmadison.com](mailto:nerdman@cityofmadison.com)  
mail P.O. Box 2983, Madison, WI 53701 2983

Dear Baker Tilly Virchow Krause, LLP:

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

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

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

### *Financial Statements*

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



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

*Information Provided*

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

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

*Other*

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

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

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

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

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

23. There are no:

- a. Violations or possible violations of budget ordinances, federal, state, and local laws or regulations (including those pertaining to adopting, approving and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance, except those already disclosed in the financial statement, if any.
- b. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by accounting principles generally accepted in the United States of America.
- c. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
- d. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.

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

- a. Financial statement preparation
- b. Adjusting journal entries

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

25. The Community Development Authority of 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.

26. The Community Development Authority of 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.

27. The financial statements include all component units.
28. The financial statements properly classify all funds and activities.
29. 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.
30. Components of net position (net investment in capital assets; restricted; and unrestricted) and components of fund balance (nonspendable, restricted, committed, assigned and unassigned) are properly classified and, if applicable, approved.
31. The Community Development Authority of the City of Madison has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
32. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
33. 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.
34. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
35. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
36. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
37. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized.
38. We have appropriately disclosed the Community Development Authority of the City of Madison's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available and have determined that net position were properly recognized under the policy. We have also disclosed our policy regarding which resources (that is, restricted, committed, assigned or unassigned) are considered to be spent first for expenditures for which more than one resource classification is available.
39. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
40. With respect to the supplementary information, (SI):
  - a. We acknowledge our responsibility for presenting the SI in accordance with accounting principles generally accepted in the United States of America, and we believe the SI, including its form and content, is fairly presented in accordance with accounting principles generally accepted in the United States of America. The methods of measurement and presentation of the SI have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

a. If the SI is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor's report thereon.

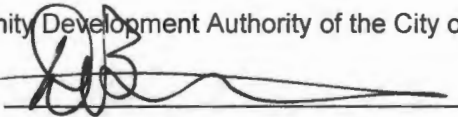
41. We assume responsibility for, and agree with, the findings of specialists in evaluating the other postemployment benefit liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures used in the financial statements and underlying accounting 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.

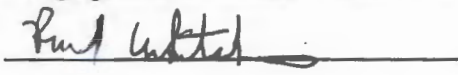
42. We agree with the restatement presented in the current year's financial statements.

43. We assume responsibility for, and agree with, the information provided by the Wisconsin Retirement System as audited by the Legislative Audit Bureau relating to the net pension asset/liability and related deferred outflows and deferred inflows and have adequately considered the reasonableness of the amounts and disclosures used in the financial statements and underlying accounting records. We also assume responsibility for the census data that has been reported to the plan.

Sincerely,

Community Development Authority of the City of Madison

Signed:  \_\_\_\_\_

Signed:  \_\_\_\_\_

Signed: \_\_\_\_\_