



**U.S. Department of Housing and Urban
Development**
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August 22, 2018

Natalie Erdman
Executive Director
Madison Community Development Authority
30 W. Mifflin Street, Suite 501
Madison, WI 53703-2589

Subject: WI003- Madison Community Development Authority
Closure of Audit Findings for FYE 12/31/16 Audit

Dear Ms. Erdman:

Thank you for the email sent by Tom Conrad of your staff dated July 27, 2018 which contained supporting materials (enclosed), regarding the Madison Community Development Authority's (MCDA) audit for the 12/31/16 fiscal year end (FYE). **Immediately below please find the U.S. Department of Housing and Urban Development – Milwaukee Field Office's (HUD MKE) determination to close the findings impacting HUD programs from the 12/31/16 audit, as well as any identified repeat findings.** Any other Federal Agencies impacted by the findings may require further actions.

2016-001 – Internal Control Over Financial Reporting (Repeat Finding 2015-001)

The auditor found that (*italics ours*):

“A properly designed system of internal control allows for the presentation of year-end financial data and financial statements without material errors. At this time, the city does not have internal controls in place that allow for the preparation of complete and accurate financial statements, *including an independent review by someone other than the preparer.* As a result, we consider this to be a significant deficiency in internal control over the city's financial reporting.”

Additionally, the auditor found that: “Due to staffing constraints, the city relies on the auditors to prepare some financial statement disclosures. Errors in the general ledger and financial statements were not identified by city personnel.”

As a result, the auditor recommended that Madison: “consider and implement additional internal control procedures in order to prepare its year-end financial statements.”

The City of Madison responded that (*italics ours*):

“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.”

Given the italicized sections above, HUD MKE noted that there appeared to be a disconnect between the auditor’s representations and the City of Madison’s representations with respect to the review of the financial statements and accompanying notes. In any event, HUD MKE strongly encouraged that a qualified part other than the city’s auditor fully prepare its financial statements and accompanying notes. Given, however, MCDA’s likely intention to continue the practice of out-sourcing the preparation of financial statements, HUD MKE required that MCDA provide its Official Policy for the review of those statements.

In MCDA’s July 27, 2018 email and supporting materials, MCDA provided an outline of the steps that the City of Madison will undertake to help ensure future compliance, entitled “Response to HUD regarding 2016 audit findings”. In that outline, the duties of several people in the city’s Finance Department are outlined with respect to financial statement preparation and review. Specifically, city personnel such as supervisory accountants and the Accounting Services Manager are to have well-defined roles. **Based on the outline provided by MCDA, HUD MKE closes this finding for audit tracking purposes. Verification of the actions outlined in MCDA’s outline must take place in MCDA’s next fiscal audit.**

2016-002 – Information Control Environment (Repeat Finding 2015-004)

The auditor found: “certain areas where internal controls over information technology [IT] should be strengthened, including the following:

IT Area	IT Finding	Management Response
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<i>Backup and Restoration</i>	Financial system data restoration is not tested.	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 our software vendor to develop a formal backup testing procedure as soon as practical.
<i>Automated / Scheduled Processes</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.	We agree and will explore ways to assess the status of automated jobs as soon as practical.
<i>Unique User Authentication</i>	BT reviewed the user list for financial systems and noted usage of some generic accounts.	IT will review the generic accounts list with Finance Department staff and our software vendor to determine which accounts can be removed and develop a plan to remove them. Another system is scheduled for obsolescence as a managed data source in late 2017.
<i>Private Information Security</i>	Certain sensitive information is emailed to employees without proper security.	We agree and will work with the Finance Department and our software vendor 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.
<i>Password</i>	Passwords of certain systems have weaker settings.	This issue relates to 3rd party systems. IT will coordinate with the Finance Department and Water Utility to reach out to those vendors and pursue Active Directory integration. Another system is scheduled for obsolescence as a managed data source in late 2017.

<i>Privileged Accounts</i>	Changes are approved and tested. However, the developer of the change also implements the change in the production environment.	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.
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In MCDA's July 27, 2018 email and supporting materials, MCDA provided an outline of the steps that the City of Madison will undertake to help ensure future compliance, entitled "Response to HUD regarding 2016 audit findings". In that outline, new procedures that the city's IT department and its software provider will undertake are outlined with respect to improving the Information Control Environment. Specifically, the outline includes a schedule for weekly data backups, as well as changes in procedures for private information protection, and password management. **Based on the outline provided by MCDA, HUD MKE closes this finding for audit tracking purposes. Verification of the actions outlined in MCDA's outline must take place in MCDA's next fiscal audit.**

Should you have any questions or concerns please contact Eric Hau, Financial Analyst, by email at: eric.a.hau@hud.gov or by phone at (414) 935-6731.

Sincerely,

 Recoverable Signature

 Shirley Wong

Signed by: SHIRLEY WONG
Shirley Wong, PIH Director
Wisconsin Public Housing
Program Center, 5IPH

Cc: Dean Brasser, Board Chairperson, Madison Community Development Authority
Tom Conrad, Housing Op Unit Dir, Madison Community Development Authority
David Schmiedicke, Finance Director, City of Madison