

CITY OF JANESVILLE

REPORT ON INTERNAL CONTROL

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

As of and For the Year Ended December 31, 2011

CITY OF JANESVILLE

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To the City Council
City of Janesville
Janesville, Wisconsin

In planning and performing our audit of the financial statements of the City of Janesville as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

Our consideration of 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. However, as discussed below, we identified certain deficiencies in internal control that we consider to be a material weakness.

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 statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency in the city's internal control to be a material weakness:

> Internal Accounting Controls

The City of Janesville's written response to the material weakness identified in our audit has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 25, 2012

INTERNAL ACCOUNTING CONTROLS

As part of the audit, we reviewed and evaluated the city's internal controls over significant accounting transaction cycles. This analysis identified certain weaknesses in the system of internal controls that could cause a material misstatement to the financial statements. As a result, we are required to report the following conditions to you.

- > Year-end audited financial statements and year-end conversion journal entries that are prepared by city personnel were not reviewed by someone other than the preparer.

The city should consider whether implementing additional controls to address these conditions is feasible and cost beneficial.

Management's Response

The auditors point out that year-end audited financial statement preparation and year-end conversion journal entries were not always reviewed by someone in the City other than the preparer. The City prepares high quality financial statements, conversion entries, and footnote disclosures for the auditors to review. However, because of the City's size, management does not believe it is cost effective to hire the additional staff needed with the expertise to review all aspects of financial reporting, and relies on the auditor for this review. Therefore, we anticipate that the material weakness in financial reporting review will likely continue to be reported in future years.

GENERAL DISBURSEMENT PROCEDURES

PURCHASE ORDERS

The city has a purchase order policy that requires the department head and Director of Administrative Services to review and approve any purchase orders for goods or services between \$5,000 and \$24,999. During our general disbursement testing, we noted an instance where a purchase order was not signed by the Director of Administrative Services. We recommend that management review the purchase order policy and system in place to determine both appropriateness of the policy and methods to enforce compliance with the policy.

INVOICE APPROVAL

The city's practice is to evidence review and approval for each general disbursement by appropriate personnel. Usually this is in the form of initials on an invoice. It was noted in our disbursement testing that an invoice for phone services had no visual indication the invoice was reviewed and approved. We walked through the process for this invoice and it appears it was reviewed and approved, however, evidence of such approval was not available. We understand that other utility-type payments may also lack visual evidence of review and approval. We recommend that personnel responsible for review of these payments evidence that approval through similar means as other disbursements, i.e. initials on the invoice.

Management's Response

During review of general disbursement procedures, the auditors noted a purchase order was not signed by the Director of Administrative Services and a phone bill that did not have evidence of review and approval on the invoice.

GENERAL DISBURSEMENT PROCEDURES (cont.)

Management's Response (cont.)

The accounting division implemented new financial software, the New World/Logos Financial Management System in December 2011. We automated routing for purchasing orders and invoices within the system to follow the city's purchasing policy. The New World FM system has electronic approvals for both purchase orders and invoices approvals to show compliance with our internal control procedures for disbursement processing.

REQUIRED COMMUNICATIONS WITH CITY COUNCIL

OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, GOVERNMENT AUDITING STANDARDS, OMS 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*, OMS 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 city council of their responsibilities.

We will also consider 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 OMS Circular A-133 and the State Single Audit Guidelines.

As part of obtaining reasonable assurance about whether the City of Janesville's financial statements are free of material misstatement, we will perform 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 OMB Circular A-133 and the State Single Audit Guidelines, we will examine, on a test basis, evidence about the City of Janesville's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the State Single Audit Guidelines applicable to each of its major federal and state programs for the purpose of expressing an opinion on the City of Janesville's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Janesville's compliance with those requirements.

We will issue 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.

REQUIRED COMMUNICATIONS WITH CITY COUNCIL (cont.)

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS (cont.)

With respect to the supplementary information accompanying the financial statements, 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.

PLANNED SCOPE AND TIMING OF THE AUDIT

We performed the audit according to the planned scope and timing previously communicated to you in our letter about planning matters dated February 27, 2012.

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

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the City of Janesville are described in Note I to the financial statements. As described in Note I to the financial statements, the city changed accounting policies related to fund balance reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective January 1, 2011. We noted no transactions entered into by the City of Janesville during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimates of the allowances for doubtful accounts are based on historical revenues, historical loss levels, and an analysis of the collectibility of individual accounts.

Management's estimate of the insurance incurred but not reported (IBNR) liabilities is based on historical claims and an analysis of the claims lag.

Management's estimate of the other post employment benefits (OPEB) liability is based on an actuarial review of the city's health benefits plan and employee base.

We evaluated the key factors and assumptions used to develop 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.

REQUIRED COMMUNICATIONS WITH CITY COUNCIL (cont.)

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

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

AUDIT ADJUSTMENTS

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

Management has corrected all such misstatements.

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.

INDEPENDENCE

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

Relating to our audit of the financial statements of and for the year ended December 31, 2011, 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 City of Janesville and provided no services to the City of Janesville other than services provided in connection with the audit of the current year's financial statements.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Janesville's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



CITY OF JANESVILLE

Wisconsin's Park Place

June 25, 2012

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

Dear Auditors:

We are providing this letter in connection with your audit of the financial statements of the City of Janesville as of December 31, 2011 and for the year then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Janesville and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the fair presentation of the previously mentioned financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

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

1. The financial statements referred to above are fairly presented in conformity with accounting principles generally accepted in the United States of America and include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
2. We have made available to you all –
 - a. Financial records and related data (and all audit or relevant monitoring reports, if any, received from funding sources.)
 - b. Minutes of the meetings of the city council or summaries of actions of recent meetings for which minutes have not yet been prepared.
3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.
5. All known audit and bookkeeping adjustments have been included in our financial statements, and we are in agreement with those adjustments.
6. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.



7. We have no knowledge of any fraud or suspected fraud affecting the entity involving:
 - a. Management.
 - b. Employees who have significant roles in internal control, or
 - c. Others where the fraud could have a material effect on the financial statements.
8. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, analysts, regulators, or others.
9. We have a process to track the status of audit findings and recommendations.
10. 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.
11. We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for our report.
12. The City of Janesville has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or fund equity.
13. The following, if any, have been properly recorded or disclosed in the financial statements:
 - a. Related party transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.
 - b. Guarantees, whether written or oral, under which the city is contingently liable.
 - c. All accounting estimates that could be material to the financial statements including the key factors and significant assumptions underlying those estimates and measurements. We believe the estimates and measurements are reasonable in the circumstances, consistently applied, and adequately disclosed.
14. 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 and debt contracts; 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.
15. There are no –
 - a. Violations or possible violations of budget ordinances, provisions of contracts and grant agreements, federal, state, and local laws or regulations including those pertaining to adopting and amending budgets, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, or for reporting on noncompliance.
 - b. Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with generally accepted accounting principles.
 - c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by generally accepted accounting principles.
 - d. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.

- e. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
 - f. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
16. The City of Janesville 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.
 17. The city has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance
 18. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
 19. The financial statements include all component units.
 20. The financial statements properly classify all funds and activities.
 21. 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.
 22. Components of net assets (invested in capital assets, net of related debt; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
 23. Provisions for uncollectible receivables have been properly identified and recorded.
 24. 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.
 25. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
 26. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
 27. Deposits and investment securities are properly classified as to risk, and investments are properly valued.
 28. The city has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
 29. Capital assets, including infrastructure assets, are properly capitalized, reported, and, if applicable, depreciated.
 30. We have appropriately disclosed the city'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 assets are available and have determined that net assets were properly recognized under the policy. We have also disclosed our policy regarding how restricted and unrestricted fund balance is used when an expenditure is incurred for which both restricted and unrestricted fund balance is available, including the spending hierarchy for committed, assigned, and unassigned amounts.
 31. 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.

32. We acknowledge our responsibility for presenting the combining and individual fund financial statements and schedules in accordance with accounting principles generally accepted in the United States of America, and we believe the combining and individual fund financial statements and schedules, 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 combining and individual fund financial statements and schedules 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.
33. We assume responsibility for, and agree with, the findings of specialists in evaluating the OPEB and IBNR liabilities 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.
34. In regards to the nonattest services performed by you listed below, we have 1) made all management decisions and performed all management functions; 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. Adjusting journal entries
 - b. Trial balance formatting from general ledger data

We have evaluated and classified any subsequent events as recognized or unrecognized through the date of this letter. 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.

Sincerely,

CITY OF JANESVILLE

Signed: 
Eric Levitt, City Manager

Signed: 
Jacob Winzenz, Director of Administrative Services

Signed: 
Patricia Lynch, Comptroller