

**CITY OF WHITEWATER  
WHITEWATER, WISCONSIN  
REQUIRED AUDIT COMMUNICATIONS  
TO THE CITY COUNCIL**

**Year Ended December 31, 2012**

**Johnson Block & Company, Inc.  
Certified Public Accountants  
406 Science Drive, Suite 100  
Madison, Wisconsin 53711  
(608) 274-2002**

**CITY OF WHITEWATER  
WHITEWATER, WISCONSIN**

**Year Ended December 31, 2012**

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**AUDIT MATTERS REQUIRING COMMUNICATION  
TO THE GOVERNING BODY**

April 18, 2013

To the City Council  
City of Whitewater  
Whitewater, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Whitewater for the year ended December 31, 2012 and issued our report thereon dated April 15, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 5, 2012 (revised April 8, 2013). Professional standards require that we communicate to you the following information related to our audit.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Whitewater are described in Note 1 to the financial statements. The City implemented provisions of GASB Statements No. 63 and 65 as discussed in the notes to the financial statements. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 City of Whitewater's financial statements were:

Management's estimates of the depreciable lives of property and equipment are based on the expected use of the respective assets and management's experience with similar assets used by the City. 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.

Difficulties Encountered in Performing the Audit

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

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. Management has corrected all such misstatements. The material misstatements detected as a result of audit procedures were corrected by management: The entries are attached.



### 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.

### Management Representations

We have requested certain representations from management that are included in the management representation letter dated April 15, 2013.

### Management 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 City's financial statements or a determination of the type of auditor's opinion that may be expressed on these 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.

### Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of principles and auditing standards, with management each year prior to retention as the City'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

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.

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

Sincerely,

*Johnson Block & Company, Inc.*

Johnson Block & Company, Inc.  
Certified Public Accountants  
Madison, Wisconsin

April 18, 2013

To the City Council  
City of Whitewater  
Whitewater, Wisconsin

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Whitewater as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Whitewater's 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 the City of Whitewater's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Whitewater's internal control.

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

A significant deficiency is a deficiency, or a 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 deficiency in the City of Whitewater's internal control to be a significant deficiency:

2012-1      Financial Reporting

An additional consequence of the size, combined with the specific expertise of your accounting and financial reporting department, is that management has elected to rely on the knowledge of its auditors to prepare its annual financial statements and related disclosures. Your City, like many others, has made the determination that because of the ever changing and numerous reporting requirements associated with preparing financial statements that are in conformity with accounting principles generally accepted in the United States of America, it is more cost advantageous to rely on the expertise of its outside auditors to assist in the preparation of its financial statements.

However, since the financial statements are the responsibility of the City's management, the control over the financial statements being prepared in conformity with accounting principles generally accepted in the United States of America, lies with management. Currently, the City has elected not to dedicate its resources to providing for sufficient internal control over the preparation of its financial statements in conformity with accounting principles generally accepted in the United States of America, resulting in a more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.



In addition, we noted other matters involving the internal control and its operation that we have reported to management of the City of Whitewater in a separate letter dated April 15, 2013.

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

*Johnson Block & Company, Inc.*

Johnson Block & Company, Inc.  
Certified Public Accountants  
Madison, Wisconsin



**Johnson ▲ Block**  
AND COMPANY, INC.

Certified Public Accountants

406 Science Drive, Suite 100 ▲ Madison, Wisconsin 53711-1097 ▲ TEL 608-274-2002 ▲ FAX 608-274-4320

April 18, 2013

To the City Council  
City of Whitewater  
Whitewater, Wisconsin

In planning and performing our audit of the financial statements of the City of Whitewater for the year ended December 31, 2012, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. The following pages that accompany this letter summarize our comments and suggestions regarding those matters. This letter does not affect our report dated April 15, 2013, on the financial statements of the City of Whitewater.

We would like to take this opportunity to acknowledge the many courtesies extended to us by the City's personnel during the course of our work.

We shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, we would welcome the opportunity of assisting you in these matters.

*Johnson Block & Company, Inc.*

Johnson Block & Company, Inc.  
Certified Public Accountants  
Madison, Wisconsin

**CITY OF WHITEWATER  
WHITEWATER, WISCONSIN  
Year Ended December 31, 2012**

**ADJUSTING JOURNAL ENTRIES**

We are frequently requested by our clients to discuss the overall condition of their accounting records and what our role is as your audit firm. We believe that these matters should be discussed at each audit. The following section describes your accounting process in general terms and the ways in which we work with your staff.

The City processes accounting transactions based on the type of transaction involved. Money coming in is processed using a cash receipt system. The payment of bills is done through an accounts payable system. Employees' salaries are paid using a payroll system. These three systems are responsible for recording and summarizing the vast majority of your financial transactions.

Beyond the three systems described in the preceding paragraph, another system is used to make corrections and to record non-cash transactions. This system involves preparing general journal entries. Journal entries provide the ability to make changes to the financial data entered in the other systems. As your auditor, our role is to substantiate year end financial balances and information presented by your accounting personnel, and compare it to supporting information and outside confirmations. When information in your records does not agree with audit evidence, an adjusting entry is necessary to correct your records. Sometimes these entries are identified by your staff as they get ready for the audit. Other adjustments are prepared by us as we discover that your general ledger balances need to be changed to reflect the correct balances. Please see the attached journal entries in the appendix.

The proposed entries were accepted by the City's management. All of these changes are reflected properly in your audited financial statements. A copy of the adjusting entries has been provided to your staff and they have been posted to your 2012 general ledger.

Because we are providing assistance to your staff by proposing changes to correct your financial information, you should be aware of these processes. Many of our clients rely on us to make year end adjustments as we have described. In many cases, we have the experience or expertise to compute, and identify, corrections to your records. We work with many clients on similar issues, so it may be more efficient for you to have us do some of the one-time adjustments, rather than your staff spending hours researching the proper adjustment.

Due to the technical nature of financial reporting and complying with financial reporting standards, most clients have their CPA firm prepare the year end financial statements and note disclosures. We have provided these services to your City.

We are communicating this information to you to give you a better understanding of what we do and how the year end process works. Our job as auditors is to bring in an outside perspective and provide a level of comfort that your financial reporting system is materially correct and accurately reflects the financial activity for the year. However, in many cases, our services go beyond auditing. Our experience and training can provide a very cost-effective means of providing the year end accounting assistance that you need.

We hope that by providing this information on what we do, you will have a better understanding of our role, and the various ways that we work with your staff.

**PASSED JOURNAL ENTRIES**

Passed journal entries may occur due to transaction timing, industry practices or lack of overall significance. There were no potential (passed) journal entries identified in our audit that were not posted to the general ledger.

## **ADDITIONAL COMMENTS**

### **CURRENT YEAR COMMENTS**

#### **Budget Comparisons**

The City budget had several categories where expenditures exceeded the budget. In addition, several revenues were short of budget. The net result was that the general fund balance (fund 100 only) decreased by \$156,857 as opposed to a budgeted deficit of \$100,000.

We recommend that the city review the assumptions in its budget to determine if the City is on track with its fund balance projections.

#### **TIF 4 audit**

The city's TIF 4 is at the end of its statutory expenditure period. Accordingly, an audit of the district will be required.

### **PRIOR YEAR COMMENTS**

#### **EMS Payroll Verification**

We previously recommend that the City review the approval process to ensure there is a system of checks and balances. Specifically, an independent reconciliation and verification of the calls should be made to ensure that those getting paid for responses are showing up. Our understanding is that Fire and EMS management has implemented a policy in 2012. In addition, the city plans an operational study of the EMS department in 2013.

#### **TIF 4 Advance from the CDA**

The City's TIF 4 received an advance of \$750,000 from the CDA. The proceeds of the advance were used to finance the innovation center. The assets of the innovation center were transferred over to the CDA. We previously recommended that the City and CDA formalize the terms of the advance including interest. Given the level of debt service with the City's TIF District, any payments on the advance would most likely need to be deferred. Our understanding is that the city and CDA are in the process of working on an agreement.

#### **Fund Balance Policy (GASB 54)**

We previously commented on a new accounting standard. The Governmental Accounting Standards Board recently issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. With regard to this, we recommend the city implement a fund balance policy that will include the following items:

- In order to report fund balance as committed, the government's highest level of decision making authority must act to establish committed fund balances, including stabilization arrangements.
- Decide which person(s) have direct or delegated authority to assign fund balance.
- Review any formal minimum fund balance policy and possible changes required as it relates to this new standard.
- Establish a policy on the order in which unrestricted resources are to be used when any of these amounts are available for expenditure. If no policy exists, the default assumes committed funds are used first, followed by assigned and then unassigned amounts.

We have provided the city with a sample policy.

## **Utility Rates**

### **Sewer**

We previously recommended that the City review and monitor its sewer rates to a level sufficient to meet coverage ratios. Rates were updated on an annually basis. The debt coverage requirement was met in 2012. The Sewer Utility's cash flow appeared adequate in 2012. We continue to recommend annual rate review.

## **Internal Accounting Controls** **Departmental Controls**

The size of your organization sometimes precludes complete separation of duties. The City has implemented a number of compensating controls such as requiring approval of invoices from department heads, the Finance Director and Council and the Finance Director reviewing bank reconciliations and journal entries. However, we continue to note the following items:

- We did note at times the same personnel performed billing and receipting functions. To the extent possible, these should be segregated.
- We recommend that authorized check signers not be involved in the financial accounting. We recommend that either the city manager, clerk and/or Council president be authorized signers.

## **CONCLUDING REMARKS**

We would like to thank you for allowing us to serve you. We are committed to assisting you in the long-term financial success of the City of Whitewater and our comments are intended to draw to your attention issues which need to be addressed by the City to meet its goals and responsibilities.

The comments and suggestions in this communication are not intended to reflect in any way on the integrity or ability of the personnel of the City. They are made solely in the interest of establishing sound internal control practices required by changing professional standards. The City's staff is deeply committed to maintaining the financial reporting system so that informed decisions can be made. They were receptive to our comments and suggestions.

We will review the status of these comments during each audit engagement.

If you have any questions or comments regarding this communication or the financial statements, do not hesitate to contact us.