



Baker Tilly Virchow Krause, LLP
Ten Terrace Ct, PO Box 7398
Madison, WI 53707-7398
tel 608 249 6622
fax 608 249 8532
bakertilly.com

May 16, 2016

Waukesha Transit Commission
City of Waukesha
2311 Badger Drive
Waukesha, WI 53188-5932

Dear Commission Members:

The following are comments highlighting items that came to our attention during our audit of the financial statements of the City of Waukesha Transit (transit) for the year ended December 31, 2015 and 2014, which we reported upon on May 16, 2016. These comments are based on our observations during the audit and are intended to bring information of interest to the Waukesha Transit Commission (Commission).

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

AUDIT REPORT

Beginning in 2011, the transit issued a full audit report in addition to the supplemental schedules historically prepared. This report is prepared with the assistance of management and provides additional detail and understanding of the transit's operations during year and financial position at year end. The transit's financial data continues to be included in the City of Waukesha's Comprehensive Annual Financial Report.

COUNTY INFORMATION THAT FLOWS THROUGH TRANSIT'S FINANCIALS

The transit continues to act as an administrator for county services. Due to this relationship with the county, all federal, state, and local grants that the county receives flow through the transit's revenues on the financial statements. The transit also contracts out for purchased transportation and bills some administrative costs to the county, which show as expenses on the transit's financial statements. If this relationship with the county were to end, the transit's revenues and expenses would decrease; however, there would be minimal overall net effect on income.

CURRENT YEAR COMMENTS AND RECOMMENDATIONS

TRANSIT OVERSIGHT

Due to the size of the transit, there is limited personnel in the accounting department. Management has worked diligently to implement controls, however, it is important that the Transit Commission stay involved, review information provided, and ask questions.

PRIOR YEAR COMMENTS AND RECOMMENDATIONS

PREPARATION OF 1099'S

It was noted that the transit does not issue 1099's to its vendors. This is requirement for the transit. We recommend that the transit incorporate a formal policy and procedures to ensure that the transit is properly issuing 1099's.

Status as of 12/31/15

We continue to recommend that the transit incorporate a formal policy and procedures to identify vendors that should receive 1099's.

SUB-RECIPIENT GRANT MONITORING

In 2013, the transit passed through some federal capital grant funds to Waukesha County. From our discussions with management, we understand that this process will continue to occur in future years. As such, it is important that management understand the sub-recipient monitoring requirements under OMB Circular A-133 Part III. Some of the requirements include: determining the sub-recipient eligibility, notifying the sub-recipient of the federal award information (i.e, CFDA title and number, award name, etc), monitoring the sub-recipient's use of the federal awards, and reviewing OMB Circular A-133 audits (including ensuring that the entity has an audit done in compliance with OMB Circular A-133 if federal expenditures exceed \$500,000). We recommend that management review the requirements under the Circular and document their process for how compliance with sub-recipient monitoring will be accomplished. In 2014, minimal capital funds passed to the County.

Status as of 12/31/15

There were minimal capital funds passed to the County in 2015. We continue to recommend management formalize sub-recipient monitoring policy.

INFORMATION TECHNOLOGY RECOMMENDATIONS

As part of the audit, we were required to identify the processes in place that provide a controlled information technology (IT) environment for the applications, supporting systems and infrastructure determined to be critical to the financial statement audit. We documented the processes in place for each of the three main areas of focus: manage changes, logical access and IT operations. We then assessed the design effectiveness of each of these processes and noted the following opportunities to strengthen the Transit's IT controls.

- > Access should be reviewed once a year by management to ensure users do not have access beyond their job responsibilities. Segregation of duties conflicts should also be reviewed.

Status as of 12/31/15

We continue to recommend that a formal policy be put in place to ensure user access is reviewed annually.

REQUIRED COMMUNICATIONS

As part of the audit process we are required to communicate certain issues related to the internal controls of the transit. As the processes related to the recording and reporting of financial data for the transit are integrated with the city, these communications are included in the report on internal controls for the City of Waukesha as presented to the City Council. In addition, there are certain communications that are required to be made to the governing body related to responsibilities, the scope of the audit and the audit processes. Again, these communications are included in the report on internal controls for the City of Waukesha, including the transit, as presented to the City Council. This letter presents communications related to only transit specific items.

CORRECTED MISSTATEMENTS (AUDIT ADJUSTMENTS)

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.

In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually, or in the aggregate, to the financial statements taken as a whole.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter. This letter is attached.

CLOSING

Our comments are intended to highlight unique transactions and items that were noted during the financial audit of the transit. We are available to discuss these items in more detail.

We thank transit's personnel for the assistance provided during the audit. Please contact us if you have any questions or comments.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

A handwritten signature in dark ink that reads "Baker Tilly Virchow Krause, LLP". The signature is written in a cursive, flowing style.

May 16, 2016



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

Dear Baker Tilly Virchow Krause, LLP:

We are providing this letter in connection with your audit of the financial statements of the Waukesha Metro Transit as of December 31, 2015 and 2014 and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position of the Waukesha Metro Transit and the respective changes in financial position and cash flows 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 utility 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 or in the schedule of findings and questioned costs.
8. All material transactions have been recorded in the accounting records and are reflected in the financial statements and the schedule of expenditures of federal and state awards.
9. All known audit and bookkeeping adjustments have been included in our financial statements, 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 transit 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 and all audit or relevant monitoring reports, if any, received from funding sources.
 - 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 Transit Commission Board or summaries of actions of recent meetings for which minutes have not yet been prepared.
13. We have disclosed to you results of our 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 disclosed to you any 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. There are no known related parties or 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 transit 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
 - c. SEFSA preparation
- None of these nonattest services constitute an audit under generally accepted auditing standards, including *Government Auditing Standards*.
25. The Waukesha Metro Transit 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 Waukesha Metro Transit has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
27. We have followed all applicable laws and regulations in adopting, approving, and amending budgets
28. Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
29. The Waukesha Metro Transit has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.


30. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
31. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
32. Deposits and investment securities are properly classified as to risk, and investments are properly valued. Collateralization agreements with financial institutions, if any, have been properly disclosed.
33. Provision, when material, has been made to reduce excess or obsolete inventories to their estimated net realizable value.
34. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
35. We have appropriately disclosed the Waukesha Metro Transit'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.
36. 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.
37. 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.
38. We understand that the separate supplemental information reports prepared for the Waukesha Transit Commission Board follow regulatory reporting and do not present a complete financial statement including statements of cash flows or required disclosures under generally accepted accounting principles.
39. With respect to federal and state award programs:
- a. We are responsible for understanding and complying with and have complied with the requirements of the Single Audit Act Amendments of 1996, *OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *State Single Audit Guidelines*, including requirements relating to preparation of the schedule of expenditures of federal and state awards (SEFSA).
 - b. We acknowledge our responsibility for presenting the SEFSA in accordance with the requirements of the Uniform Guidance and the *State Single Audit Guidelines*, and we believe the SEFSA, including its form and content, is fairly presented in accordance with the Uniform Guidance and the *State Single Audit Guidelines*. The methods of measurement and presentation of the SEFSA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the SEFSA.

- c. If the SEFSA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFSA no later than the date we issue the SEFSA and the auditors' report thereon.
- d. We have identified and disclosed to you all of our government programs and related activities subject to the Uniform Guidance and the *State Single Audit Guidelines* and included in the SEFSA, expenditures made during the audit period for all awards provided by federal agencies in the form of grants, federal cost reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
- e. We are responsible for understanding and complying with, and have complied with the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal and state programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major federal and state program.
- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance for federal and state programs that provide reasonable assurance that we are administering our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal and state programs. We believe the internal control system is adequate and is functioning as intended. Also, no changes have been made in the internal control over compliance or other factors to the date of this letter that might significantly affect internal control, including any corrective action taken with regard to control deficiencies reported in the schedule of findings and questioned costs.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal or state agencies or pass-through entities relevant to the programs and related activities.
- h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you), including when applicable, those set forth in the OMB Compliance Supplement and the *State Single Audit Guidelines*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and any known noncompliance with the direct and material compliance requirements of federal and state awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditors' report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation agreements, and internal or external monitoring that directly relate to the objectives of the compliance audit, if any, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditors' report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in the Uniform Guidance.
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.

- n. We have made available to you all documentation related to the compliance with the direct and material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. We are not aware of any instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditors' report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies or material weaknesses in internal control over compliance, subsequent to the date as of which compliance was audited.
- r. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal and state agency or pass-through entity, as applicable.
- t. We have monitored subrecipients to determine that they have expended pass-through assistance in accordance with applicable laws and regulations and have met the requirements of the Uniform Guidance and the *State Single Audit Guidelines*.
- u. We have taken appropriate action, including issuing management decisions, on a timely basis after receipt of subrecipients' auditors' reports that identified noncompliance with laws, regulations, or the provisions of contracts or grant agreements to ensure that subrecipients have taken the appropriate and timely corrective action on findings.
- v. We have considered the results of subrecipient audits and made any necessary adjustments to our books and records.
- w. We have charged costs to federal and state awards in accordance with applicable cost principles.
- x. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by the Uniform Guidance and the *State Single Audit Guidelines* and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- y. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by the Uniform Guidance.
- z. We are responsible for preparing and implementing a corrective action plan for each audit finding.
- aa. We have disclosed to you all contracts or other agreements with our service organizations, and we have disclosed to you all communications from the service organization relating to noncompliance at the service organizations.

Sincerely,

Waukesha Metro Transit

Signed:  _____

Signed: Kari Bloedorn _____