

# **CITY OF NEENAH**

Neenah, Wisconsin

COMMUNICATION TO THOSE CHARGED  
WITH GOVERNANCE AND MANAGEMENT

As of and for the Year Ended December 31, 2016

# CITY OF NEENAH

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

Mayor Kaufert, President Stevenson,  
and Members of the Common Council and Management  
City of Neenah  
Neenah, Wisconsin

In planning and performing our audit of the financial statements of the City of Neenah as of and for the year ended December 31, 2016, 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 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 its internal control. Accordingly, we do not express an opinion on the effectiveness of its internal control.

A separate Report on Internal Control was issued to the Utility Commission. The information contained in that report is not included with this report.

Our consideration of internal control was for the limited purpose described in the first 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 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 Control Over Financial Reporting

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 deficiencies in the City's internal control to be significant deficiencies:

- > Joint Municipal Court – Segregation of Duties
- > Joint Municipal Court – Voids and Adjustments

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

*Baker Tilly Virchow Krause, LLP*

Madison, Wisconsin  
June 27, 2017

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 City's year-end financial reporting process and preparation of your financial statements.

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## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

Our audit includes a review and evaluation of the City's 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.
- > 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 a material weakness surrounding the preparation of financial statements and footnotes, adjusting journal entries identified by the auditors, and an independent review of financial reports.

Management has not prepared financial statements that are in conformity with generally accepted accounting principles. In addition, material misstatements in the general ledger were identified during the financial audit.

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## **JOINT MUNICIPAL COURT**

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### ***SEGREGATION OF DUTIES***

Under ideal conditions, there are many procedures and controls designed to limit the access of any one individual to all phases of a transaction. It is not uncommon for a decentralized operation such as the Joint Municipal Court to have staff limitations making it difficult to adequately segregate the various financial procedures.

Under the current situation, the one Joint Municipal Court employee is responsible for posting citations into the court system, establishing payment plans with the offenders, collecting and receipting payments, and performing the necessary reconciliations between the City of Neenah's general ledger and the court system. In addition, the Joint Municipal Court maintains a cash drawer where the same court employee is responsible for closing out and depositing collections each day.

Because overlapping responsibilities do not exist, management should rely more heavily on your direct knowledge of the Joint Municipal Court's operations and day-to-day contact with the employee to control and safeguard assets. The purpose of this comment is to meet our professional responsibility of communicating possible significant deficiencies to you and make you aware of the importance of having good people and maintaining close contact with them and the operation of the Joint Municipal Court.

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**JOINT MUNICIPAL COURT (cont.)**

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***VOIDS AND ADJUSTMENTS***

The system being used by the Joint Municipal Court to track offenders and process financial information allows the user to void and/or adjust a transaction resulting in the deletion or modification of all financial history relative to the offender. Modifying financial information such as recent collections without supervisory approval or awareness presents certain risks to the collection process. Ideally, a supervisor would be involved in the approval process of voiding or changing transactions, or at a minimum, be able to review historical information to determine if the voids or changes were appropriate.

We recommend the Joint Municipal Court review options available from the software provider of the courts system being used, to determine if modifications are available to strengthen controls over these processes.

**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.

- 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. Your financial statements contain components, as defined by auditing standards generally accepted in the United States of America, which we also audit.

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 City council 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?



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

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- 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?

Also, is there anything that we need to know about the attitudes, awareness, and actions of the City concerning:

- a. The City'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. We perform preliminary audit work during the months of November, December, and sometimes early January. 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 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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## **CURRENT YEAR RECOMMENDATION**

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### ***APPROVAL OF ACCOUNTS RECEIVABLE WRITE-OFFS***

It is our understanding that the City does not have a formal approval process for the write-off of accounts receivable amounts. We recommend that the accounts receivable balances be evaluated on a regular basis to determine if write-offs are necessary. Write-offs should be authorized by someone independent of the billing process.

Writing off an account from the books does not mean collection attempts should cease if the City feels such efforts are cost justified. Collection attempts should continue for those amounts still deemed to be collectible. However, writing off uncollectible accounts will improve the accuracy of the financial position of the City and make monthly accounting procedures more efficient.

### ***INFORMATION TECHNOLOGY CONTROLS***

We recommend that the City evaluate the implementation of the following controls:

- > A formal software policy should be developed that outlines the process and requirements for developing any new software. A system development lifecycle should be developed to facilitate any internal software development projects.
- > Best Practice states passwords should be changed every 90 days, require a minimum of 6 characters, require strong passwords, and passwords should be remembered so users cannot reuse recent passwords.
- > Backups should be tested regularly to ensure they are working properly.
- > Network and application access for terminated employees should be removed in a timely manner. Best Practice is within 24 hours of termination, with a 3 business day maximum.

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## **PRIOR YEAR RECOMMENDATIONS**

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### ***DELINQUENT PERSONAL PROPERTY TAXES***

The City is reporting approximately \$450,000 of delinquent personal property taxes within its General Fund at year-end. The individual balances are tracked by year and consist of amounts that have not been collected between 2014 and prior. It is very likely that many of these delinquent amounts cannot be collected at this point in time. As part of the audit each year, the City estimates an allowance for amounts determined to be uncollectible.

### ***Status (12/31/16)***

During 2016, the City wrote off delinquent personal property taxes receivable from 2009 and prior. The City is reporting a receivable balance of \$88,600 as of December 31, 2016. This point is considered resolved.

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## **PRIOR YEAR RECOMMENDATIONS (cont.)**

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### ***INTERNAL CONTROL ENVIRONMENT***

A properly designed system of internal control includes adequate staffing as well as policies and procedures to properly segregate duties. This includes systems that are designed to limit the access or control of any one individual to your government's assets or accounting records, and to achieve a higher likelihood that errors or irregularities in the City's accounting processes would be discovered by your staff in a timely manner.

There are certain controls that have not been in place at the City in prior years, related to significant transaction cycles. These key controls are important in reducing the risk of errors or irregularities in the City's accounting processes. We evaluated these controls as part of this year's audit and noted the following:

#### ***Controls Over Purchasing***

Department heads have the authority to order, receive, and approve goods and services in their respective departments. While a subsequent review of the purchase does occur in both the finance department as well as by the finance committee chair, risks are still present when department heads retain all of these duties. Purchasing duties within departments should be further segregated so that no one individual is able to complete all of these responsibilities.

#### ***Status (12/31/16)***

Department heads are now required to obtain additional approval. This point is considered resolved.

#### ***Controls Over Information Technology***

Access to financial systems should be reviewed once a year by management to ensure users do not have access beyond their job responsibilities. A report is now being generated that will allow for this review but that control has not yet begun.

#### ***Status (12/31/16)***

This was reviewed during 2016 and this point is considered resolved.

### ***MENASHA-NEENAH MUNICIPAL COURT DEFICIT***

The City of Neenah and the City of Menasha established a joint venture creating the Menasha-Neenah Municipal Court. Each city's proportionate share in the annual operations is equal to the percentage share of citations issued by that city compared to the total citations issued by both cities. The deficit allocation as of December 31, 2016 was approximately 60% for the City of Neenah and 40% for the City of Menasha.

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**PRIOR YEAR RECOMMENDATIONS (cont.)**

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***MENASHA-NEENAH MUNICIPAL COURT DEFICIT (cont.)***

For the past fifteen years, the court has operated at a deficit that increases every year. As of December 31, 2016, the court had a deficit of \$295,916. The allocation of this is as follows.

City of Menasha	\$ 123,308
City of Neenah	<u>172,609</u>
Total	<u>\$ 295,917</u>

As of the end of the year, the court has been advanced monies to cover a portion of this deficit. The balance of the deficit is being funded by the City of Neenah by borrowing from another city fund. We recommend that the participating communities determine how the court will repay these funds. If the court is unable to repay the funds, we recommend that Neenah and Menasha budget for this deficit and make the appropriate transfers. In addition, to avoid potential future shortfalls, the two communities should consider restructuring the fees charged to finance operations.

***Status (12/31/16)***

This recommendation still pertains.

***TAX INCREMENT FINANCING DISTRICTS***

For the last several years, we have communicated to you an informational point regarding economic conditions and your community. A focus of that communication has been the status of the City's tax incremental financing (TIF) districts and their continued reliance upon other funds of the City. While it is not unusual for active TIF districts to rely upon or borrow from other funds during their earlier years, it also requires careful monitoring through TIF projections. Performing TIF projections is not something that is within the scope of a financial audit. The distinction is that an audit looks back to determine the current status of a TIF, while a projection attempts to estimate the long-term viability of a TIF, including whether or not it will be able to meet its debt obligations during its life.

We recommend the City continue to update its TIF projections, including the amounts other funds have advanced or loaned to the TIFs.

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## INFORMATIONAL POINTS

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### *TAX INCREMENT FINANCING DISTRICTS (cont.)*

As of year-end for the past four years, the following TIF Districts had an advance recorded from other funds:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
TIF No. 5	\$ 951,000	\$ 891,000	\$ 891,000	\$ 891,000
TIF No. 6	737,000	1,794,000	2,045,000	1,430,110
TIF No. 8	<u>5,508,500</u>	<u>5,728,000</u>	<u>6,661,960</u>	<u>5,332,337</u>
Total	<u>\$ 7,196,500</u>	<u>\$ 8,413,000</u>	<u>\$ 9,597,960</u>	<u>\$ 7,653,447</u>

These monies were advanced by the following funds:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Capital Projects –				
Public Infrastructure	\$ 891,000	\$ 1,266,000	\$ 891,000	\$ 891,000
TIF No. 5	123,000	-	655,000	699,240
TIF No. 7	1,350,000	1,904,900	2,657,790	901,410
TIF No. 6	274,000	49,000	337,000	-
Internal Service –				
Benefit Accrual Fund	3,146,000	2,543,100	-	-
Debt service	1,412,500	2,620,000	3,600,000	4,518,417
TIF No. 8	-	30,000	340,000	170,000
TIF No. 10	<u>-</u>	<u>-</u>	<u>1,117,170</u>	<u>473,380</u>
Total	<u>\$ 7,196,500</u>	<u>\$ 8,413,000</u>	<u>\$ 9,597,960</u>	<u>\$ 7,653,447</u>

The City must formally evaluate on a regular basis whether these funds have the ability to repay these advances. If the monies are not available, the City will be required to determine the appropriate allowances. As part of the audit process, we have not been provided a detailed analysis of when these funds will have sufficient reserves to repay their obligations,

Your community's long-term success is important. As a governing body, your involvement and understanding of your community's financial activities will help you make informed decisions regarding the future of your community. Please feel free to contact us if you have questions – we are happy to discuss these topics in further detail.

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## **INFORMATIONAL POINTS (cont.)**

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### ***DECENTRALIZED CASH COLLECTIONS***

Many governments collect cash at numerous decentralized locations that are separate from the primary system of accounting procedures and controls. The opportunity for theft is often higher at those locations because one person is frequently involved in most, if not all, aspects of a transaction (i.e., lack of segregation of duties).

Examples in your government that fit this situation include: parks and recreation (pool), joint municipal court, police, and the library.

Management is responsible for designing and implementing controls and procedures to detect and prevent fraud. As a result, we recommend that management review its decentralized cash collection procedures and controls on a periodic basis and make changes as necessary to strengthen the internal control environment. Reviewing the adequacy of the controls is a responsibility of the governing body.

Below are example procedures and controls to help mitigate the risk of loss at decentralized cash collection points:

- > Implement a centralized receipting process with adequate segregation of duties
- > For cash collections, ensure pre-numbered receipts are being used and all receipts in the sequence are being reviewed by someone other than the person receipting the cash and receipts tie to deposits
- > Perform surprise procedures at decentralized locations (cash counts, walkthrough of processes, etc.)
- > Require regular cash deposits to minimize collections on-hand
- > Limit the number of separate bank accounts
- > Segregate duties as much as possible – the person receipting cash should be separate from the person preparing deposits and the person reconciling bank accounts should be separate from the cash collection activity
- > Perform month-to-month or year-to-year comparisons to look for unusual changes in collections
- > If collecting from a drop box site, consider sending two people to collect the funds, especially during peak times

As always, the cost of controls and staffing must be weighed against the benefits of safeguarding your assets.

### ***PROCUREMENT CARDS***

In prior years, the City expanded its use of procurement cards, similar to what we have seen while conducting audits of other municipalities.

The City of Neenah adopted a procurement card policy that is required to be signed by all cardholders. A well written policy allows organizations to: maintain consistency over the cards' use; provide guidance on how to establish, maintain, and cancel cards; and provide the desired standard against which practices can be compared.

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## INFORMATIONAL POINTS (cont.)

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### ***PROCUREMENT CARDS*** (cont.)

In considering the procedures to be used and the documentation to be required for payment of the procurement card claims, thought should also be given to the required supporting documentation that should be attached to the procurement card invoice.

During 2016, the City evaluated its current policy and procedures over the use of procurement cards and implemented additional controls.

### ***CYBER RISK ASSESSMENT***

Cybersecurity is a growing challenge for many governments as threats and vulnerabilities constantly evolve. Information security is a significant issue for many organizations and is no longer considered to be strictly an Information Technology (IT) issue. The potential impacts of a security breach can be financial, operational, and reputational. Cyber risk should be a high priority and evaluated on a regular basis.

The City performed a risk assessment in conjunction with CIVMIC during 2016.

### ***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, the following is 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	88.5	92.1	(3.6)
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.



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## INFORMATIONAL POINTS (cont.)

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### ***GASB UPDATES***

The Government Accounting Standard Board (GASB) has been very active in recent years, issuing new standards at a fast pace. Over the next few years, your government will have many new standards to evaluate and implement. Here are the standards likely to impact you the most in the upcoming year:

- > GASB 73 includes accounting and reporting for pension plans that are not reported in a trust
- > GASB 74 and 75 are Other Post Employment Benefit (OPEB) standards that parallel the recent pension standards
- > GASB 80 clarifies the presentation requirements for some component units
- > GASB 81 provides guidance for accounting for irrevocable split interest agreements

There are two significant GASB projects drawing to conclusion in 2017. While the implementation dates for these are a few years away, both are anticipated to have significant impacts on many government financial statements:

- > Fiduciary Activities
- > Leases

Looking even further ahead, one of the most significant current GASB projects is the financial reporting model reexamination. The GASB is currently revisiting GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis for State and Local Governments*, as well as reporting model-related pronouncements including Statements Nos. 37, 41, and No. 46 and Interpretation No. 6. The GASB has indicated that they are revisiting the following major provisions of these standards: management’s discussion and analysis, government-wide financial statements, fund financial statements, proprietary fund and business-type activity financial statements, fiduciary fund financial statements, budgetary comparisons, and other issues. The first of a series of Invitations to Comment was issued in December 2016. This Invitation to Comment addresses governmental fund topics.

Through our firm involvement on AICPA committees, Baker Tilly follows these developments closely so that we can help you prepare for the changes as they evolve. This participation also allows us to share with GASB the experiences and perspectives of our clients to potentially influence the direction of future projects.

Full lists of projects, as well as many resources, are available on GASB’s website which is located at [www.gasb.org](http://www.gasb.org).

### ***TAX INCREMENT FINANCING LAW CHANGES***

As you are aware, the reporting requirements for the TID annual reports have changed as a result of new requirements imposed by the Wisconsin Department of Revenue (DOR). In prior years, each municipality provided a copy of an annual TID report to each overlying jurisdiction by May 1; however, for 2016 annual reports, each municipality will now be required to submit an electronic report by entering specific information into the DOR’s new web-based reporting system by July 3, 2017.

There will be penalties assessed if the information is past due. In addition, the joint review board must meet annually prior to July 3, 2017 to review the annual report and the status of each TID.

We recommend that you visit DOR’s website and the Wisconsin State Statutes for more information.

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

Mayor Kaufert, President Stevenson,  
and Members of the Common Council and Management  
City of Neenah  
Neenah, Wisconsin

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

We have completed our audit of the financial statements of the City of Neenah for the year ended December 31, 2016 and have issued our report thereon dated June 27, 2017. This letter presents communications required by our professional standards.

***OUR RESPONSIBILITY UNDER AUDITING STANDARDS  
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA***

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. 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.

As part of the audit we obtained an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures. The audit was not designed to provide assurance on internal control or to identify deficiencies in internal control.

***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 letter about planning matters dated June 29, 2016 and our meeting with you on July 20, 2016.

Mayor Kaufert, President Stevenson,  
and Members of the Common Council and Management  
City of Neenah

## ***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 Neenah are described in Note I to the financial statements. As described in Note I to the financial statements, the City of Neenah changed accounting policies related to the financial reporting issues related to fair value measurements by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 72, *Fair Value Measurement and Application* and policies related to financial reporting for tax abatements by adopting Statement of Governmental Accounting Standards (GASB) Statement No. 77, *Tax Abatement Disclosures*. Accordingly, the accounting changes have been applied to the current period presented; no retrospective application was necessary. We noted no transactions entered into by Neenah 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 the estimate of the Other Postemployment Benefits (OPEBs) liability, which is based upon information provided to actuaries contracted with by the City, the estimate of the allowance for loans, which was based upon historical data from past loan history, the estimate of the net pension liability (asset) and the deferred outflows and inflows related to pensions, which impact the reported pension expense, are based upon information provided by the Wisconsin Retirement System, and the estimates used to determine depreciation of capital assets which is based upon management's estimate of the useful lives of those same capital assets. 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 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.

Mayor Kaufert, President Stevenson,  
and Members of the Common Council and Management  
City of Neenah

#### ***CORRECTED AND UNCORRECTED MISSTATEMENTS***

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.

The following is a summary of material financial statement misstatements (audit adjustments):

	<u>Amount</u>
> Record a transfer from TIF No. 7 (special revenue fund) to TIF No. 8 (special revenue fund). TIF No. 7 is a donor district to TIF No. 8	\$ 2,293,717
> Reduce a transfer between TIF No. 8 (special revenue fund) and the CDA related to the debt refunding transaction	142,819

The following are uncorrected financial statement misstatements related to the allowance for delinquent personal property taxes and CDBG deferred revenue. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- > An allowance of \$70,409 for uncollectible delinquent personal property taxes should be recorded in the general fund. In the 2015 audit, this amount was \$71,718. The fund balance is too high by \$70,409 as of December 31, 2016.
- > Deferred revenue of \$49,400 for CDBG loans should be recognized and recorded as revenue in the CDBG fund. In the 2015 audit, this was recorded in deferred revenue. The fund balance is too high by \$49,400 as of December 31, 2016.

In addition, we prepared GASB No. 34 conversion entries which are summarized in the "Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position" and the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" in the financial statements.

#### ***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. 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.

Mayor Kaufert, President Stevenson,  
and Members of the Common Council and Management  
City of Neenah

### ***INDEPENDENCE***

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

Relating to our audit of the financial statements of the City of Neenah 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 City in accordance with the Code of Professional Conduct issued by the American Institute of Certified Public Accountants. We provided no services to the City other than audit services provided in connection with 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 and GASB 34 conversion entries
- > Civic Systems software (water utility)

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

### ***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 Neenah'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 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.

We were not engaged to report on the other information, which accompanies the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

Mayor Kaufert, President Stevenson,  
and Members of the Common Council and Management  
City of Neenah

***RESTRICTION ON USE***

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

We will review the status of these comments during our next audit engagement. We have already discussed the previous comments and suggestions with various city personnel and we would be pleased to discuss them with you in further detail.

*Baker Tilly Voichau Krause, LLP*

Madison, Wisconsin  
June 27, 2017

## **MANAGEMENT REPRESENTATIONS**





*Department of Finance*  
211 Walnut St., P.O. Box 426, Neenah, WI 54957-0426  
Phone: 920-886-6140 Fax: 920-886-6150  
website/e-mail: [www.ci.neenah.wi.us](http://www.ci.neenah.wi.us)

June 27, 2017

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 City of Neenah 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 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 Neenah 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 primary government 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. 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.
7. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
8. We believe the effects of the uncorrected financial statement misstatements listed here are immaterial, both individually and in the aggregate, to the basic financial statements as a whole. The general fund required an adjustment to its allowance of \$70,409 for uncollectible delinquent personal property taxes. In the 2015 audit, this amount was \$71,718. Fund balance is too high in the general fund by \$70,409. The CDBG fund required an adjustment to its deferred revenue of \$49,400 for revenue actually collected in a prior year. In the 2015, fund balance was too high in the CDBG fund by \$49,400. In addition, you have recommended adjusting journal entries, and we are in agreement with those adjustments.
9. 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.
10. Guarantees, whether written or oral, under which the City is contingently liable, if any, have been properly recorded or disclosed.

*Information Provided*

11. 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 City Council or summaries of actions of recent meetings for which minutes have not yet been prepared.
12. We have not completed an assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. 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.

14. 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.
15. 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.
16. There are no known related parties or related party relationships and transactions of which we are aware.

*Other*

17. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
18. We have a process to track the status of audit findings and recommendations.
19. 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.
20. The City has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
21. 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.
22. 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. Nonspendable, restricted, committed, or assigned fund balances that were not properly authorized and approved.
  - d. Rates being charged to customers other than the rates as authorized by the applicable authoritative body.
  - e. Violations of restrictions placed on revenues as a result of bond resolution covenants such as revenue distribution or debt service funding.
23. 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. Civic Systems software

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

24. The City of Neenah 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.
25. The City of Neenah has complied with all aspects of contractual agreements that would have a material effect on the financial statement in the event of noncompliance.
26. The financial statements include all component units and properly disclose all other joint ventures and other related organizations.
27. The financial statements properly classify all funds and activities.
28. 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.
29. 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.
30. The City of Neenah has no derivative financial instruments such as contracts that could be assigned to someone else or net settled, interest rate swaps, collars or caps.
31. Provisions for uncollectible receivables, if any, have been properly identified and recorded.
32. 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.
33. Revenues are appropriately classified in the statement of activities within program revenues and general revenues.
34. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
35. Deposits and investments are properly classified, valued, and disclosed (including risk disclosures, collateralization agreements, valuation methods, and key inputs, as applicable).
36. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated/amortized. Any known impairments have been recorded and disclosed.
37. Tax-exempt bonds issued have retained their tax-exempt status.
38. We have appropriately disclosed the City of Neenah'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.

b. 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 Incurred But Not Reported (IBNR) liability as well as the Other Post Employment Benefits (OPEBs) 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 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,

City of Neenah

Signed:



Signed:



Signed:

