

CITY OF JANESVILLE

Janesville, Wisconsin

REPORT ON FEDERAL AND STATE AWARDS

For the Year Ended December 31, 2016

CITY OF JANESVILLE

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Janesville
Janesville, Wisconsin

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the the City of Janesville, Wisconsin as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the the City of Janesville's basic financial statements, and have issued our report thereon dated June 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Janesville's internal control over financial reporting (internal control) to determine the audit 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 the City of Janesville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Janesville'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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2016-001, that we consider to be a material weakness.

To the City Council
City of Janesville

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Janesville's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City of Janesville's Response to Finding

The City of Janesville's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Janesville's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
June 21, 2017

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND MAJOR STATE PROGRAM; REPORT ON
INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS REQUIRED BY THE UNIFORM GUIDANCE AND THE
STATE SINGLE AUDIT GUIDELINES

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Janesville
Janesville, Wisconsin

Report on Compliance for Each Major Federal and Major State Program

We have audited the City of Janesville's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *State Single Audit Guidelines* that could have a direct and material effect on each of the City of Janesville's major federal and major state programs for the year ended December 31, 2016. The City of Janesville's major federal and major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Janesville's major federal and major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the *State Single Audit Guidelines*. Those standards, the Uniform Guidance, and the *State Single Audit Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or a major state program occurred. An audit includes examining, on a test basis, evidence about the City of Janesville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and major state program. However, our audit does not provide a legal determination of the City of Janesville's compliance.

To the City Council
City of Janesville

Opinion on Each Major Federal and Major State Program

In our opinion, the City of Janesville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and major state programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

Management of the City of Janesville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Janesville's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal or major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal or major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the *State Single Audit Guidelines*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Janesville's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the *State Single Audit Guidelines*. Accordingly, this report is not suitable for any other purpose.

To the City Council
City of Janesville

Report on Schedule of Expenditures of Federal and State Awards Required by the Uniform Guidance and the *State Single Audit Guidelines*

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Janesville, Wisconsin as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Janesville's basic financial statements. We issued our report thereon dated June 21, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by the Uniform Guidance and the *State Single Audit Guidelines* and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal and state awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
September 27, 2017

CITY OF JANESVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

Grantor Agency/ Program Title	Federal CFDA Number	Pass-Through Entity	Pass-Through Entity Grant ID	Revenues			Total Revenues	Expenditures	Payments to Subrecipients
				(Accrued) Deferred Beginning Balance	Receipts	Accrued (Deferred) Ending Balance			
FEDERAL PROGRAMS									
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT									
CDBG - Entitlement Grants Cluster									
Community Development Block Grants / Entitlement Grants	14.218								
Community Development Block Grants / Ent. Grants		Direct	N/A	\$ (119,207)	\$ 563,715	\$ 26,858	\$ 471,366	\$ 471,366	\$ 85,616
Community Development Block Grants / Ent. Grants - Program income		Direct	N/A	(83)	143,491	-	143,408	143,408	-
Neighborhood Stabilization Program (HERA)		City of Beloit	NSP 09-24	(2,544)	15,411	6,243	19,110	19,110	-
Neighborhood Stabilization Program (HERA) - Program income		City of Beloit	NSP 09-24	-	1,000	-	1,000	1,000	-
Total CDBG- Entitlement Grants Cluster				<u>(121,834)</u>	<u>723,617</u>	<u>33,101</u>	<u>634,884</u>	<u>634,884</u>	<u>85,616</u>
Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii									
Community Development Block Grant	14.228	WI DOA	CDBG 16-08	-	-	61,875	61,875	61,875	-
Neighborhood Stabilization Program		City of Beloit	NSP 11-04	(6,972)	6,972	-	-	-	-
Total Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii				<u>(6,972)</u>	<u>6,972</u>	<u>61,875</u>	<u>61,875</u>	<u>61,875</u>	<u>-</u>
Home Investment Partnership Program									
Home Investment Partnerships Program/ Rock Co. Consortium	14.239	Direct	N/A	(11,275)	178,265	-	166,990	166,990	-
Home Investment Partnerships Program - Program Income		Direct	N/A	-	159,111	-	159,111	159,111	-
Total Home Investment Partnerships Program				<u>(11,275)</u>	<u>337,376</u>	<u>-</u>	<u>326,101</u>	<u>326,101</u>	<u>-</u>
Housing Voucher Cluster									
Section 8 Housing Choice Vouchers	14.871	Direct	N/A	-	2,752,808	-	2,752,808	2,752,808	-
Total Housing Voucher Cluster				<u>-</u>	<u>2,752,808</u>	<u>-</u>	<u>2,752,808</u>	<u>2,752,808</u>	<u>-</u>
Healthy Homes Technical Studies Grants									
Healthy Homes Technical Studies Grants	14.906	Rock County	WILHB0570-13	(64,791)	266,799	27,219	229,227	229,227	-
Total U.S. Department of Housing and Urban Development				<u>(204,872)</u>	<u>4,087,572</u>	<u>122,195</u>	<u>4,004,895</u>	<u>4,004,895</u>	<u>85,616</u>
U.S. DEPARTMENT OF JUSTICE									
Bulletproof Vest Partnership	16.607	Direct	N/A	(9,442)	14,120	793	5,471	5,471	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Rock County	2015-DJ-BX-1030	-	-	14,800	14,800	14,800	-
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to States and Territories	16.803	Rock County	2009-SB-B9-0870	12	-	(12)	-	-	-
Total U.S. Department of Justice				<u>(9,430)</u>	<u>14,120</u>	<u>15,581</u>	<u>20,271</u>	<u>20,271</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal and state awards.

CITY OF JANESVILLE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2016

Grantor Agency/ Program Title	Federal CFDA Number	Pass-Through Entity	Pass-Through Entity Grant ID	Revenues			Total Revenues	Expenditures	Payments to Subrecipients
				(Accrued) Deferred Beginning Balance	Receipts	Accrued (Deferred) Ending Balance			
FEDERAL PROGRAMS (cont.)									
U.S. DEPARTMENT OF TRANSPORTATION									
Highway Planning and Construction Cluster									
Highway Planning and Construction	20.205	WI DOT	371-10-004 & 371-14-012	\$ (50,256)	\$ 174,081	\$ 40,515	\$ 164,340	\$ 164,340	\$ -
Total Highway Planning and Construction Cluster				<u>(50,256)</u>	<u>174,081</u>	<u>40,515</u>	<u>164,340</u>	<u>164,340</u>	<u>-</u>
Federal Transit Cluster									
Federal Transit Formula Grants	20.507								
Federal Transit Formula Grants (operating 2015) WI-90-4751		Direct	N/A	(365,993)	365,993	-	-	-	-
Federal Transit Formula Grants (operating 2016) WI-90-4751		Direct	N/A	-	1,092,132	-	1,092,132	1,092,132	-
Federal Transit State of Good Repair		WI DOT	WI-04-0020-01	(32,499)	36,087	1,273	4,861	4,861	-
Total Federal Transit Cluster				<u>(398,492)</u>	<u>1,494,212</u>	<u>1,273</u>	<u>1,096,993</u>	<u>1,096,993</u>	<u>-</u>
Highway Safety Cluster									
State and Community Highway Safety	20.600	WI DOT	FG-2016-janesvil-03091 FG-2016-janesvil-03412 FG-2016-janesvil-03528	-	63,669	13,526	77,195	77,195	-
Total Highway Safety Cluster				<u>-</u>	<u>63,669</u>	<u>13,526</u>	<u>77,195</u>	<u>77,195</u>	<u>-</u>
Total U.S. Department of Transportation				<u>(448,748)</u>	<u>1,731,962</u>	<u>55,314</u>	<u>1,338,528</u>	<u>1,338,528</u>	<u>-</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY									
Brownfields Assessment and Cleanup	66.818	Direct	N/A	(71,571)	71,571	-	-	-	-
Revolving Loan Fund		Direct	N/A	(16,408)	19,194	-	2,786	2,786	-
Total Environmental Protection Agency				<u>(87,979)</u>	<u>71,571</u>	<u>-</u>	<u>2,786</u>	<u>2,786</u>	<u>-</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES									
State Grants for Protection and Advocacy Services	93.276	Direct	N/A	(25,481)	240,247	-	214,766	214,766	-
Total U.S. Department of Health and Human Services				<u>(25,481)</u>	<u>240,247</u>	<u>-</u>	<u>214,766</u>	<u>214,766</u>	<u>-</u>
U.S. DEPARTMENT OF HOMELAND SECURITY									
Assistance to Firefighters Grants	97.044	Direct	N/A	(238,890)	241,226	-	2,336	2,336	-
Total U.S. Department of Homeland Security				<u>(238,890)</u>	<u>241,226</u>	<u>-</u>	<u>2,336</u>	<u>2,336</u>	<u>-</u>
TOTAL FEDERAL PROGRAMS				<u>\$ (1,015,400)</u>	<u>\$ 6,386,698</u>	<u>\$ 193,090</u>	<u>\$ 5,583,582</u>	<u>\$ 5,583,582</u>	<u>\$ 85,616</u>

See accompanying notes to schedule of expenditures of federal and state awards.

CITY OF JANESVILLE

SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended December 31, 2016

Grantor Agency/ Program Title	State ID Number	Grant ID Number	Revenues				Expenditures	Payments to Subrecipients
			(Accrued) Deferred Beginning Balance	Receipts	Accrued (Deferred) Ending Balance	Total Revenues		
STATE PROGRAMS								
WISCONSIN DEPARTMENT OF NATURAL RESOURCES								
Recycling Grants to Responsible Units	370.670	RU 53241	\$ -	\$ 198,746	\$ -	\$ 198,746	\$ 198,746	\$ -
Recycling Consolidation Grant	370.673	RU 53241	-	16,633	-	16,633	16,633	-
Total Wisconsin Department of Natural Resources			-	215,379	-	215,379	215,379	-
WISCONSIN DEPARTMENT OF TRANSPORTATION								
Transit Operating Aids								
2013 Operating Aids	395.104	2013	(38,598)	-	38,598	-	-	-
2014 Operating Aids	395.104	2014	(88,460)	88,460	-	-	-	-
2015 Operating Aids	395.104	2015	(86,680)	-	86,680	-	-	-
2016 Operating Aids	395.104	2016	-	763,258	84,806	848,064	848,064	-
Paratransit Aids Through 85.205	395.104	2015	-	33,109	-	33,109	33,109	-
Total Transit Operating Aids			(213,738)	884,827	210,084	881,173	881,173	-
Transportation Economic Assistance (TEA) Grant								
Transportation Economic Assistance (TEA) Grant - Road	395.510	5966-00-70	-	-	829,986	829,986	829,986	-
Total Wisconsin Department of Transportation			(213,738)	884,827	1,040,070	1,711,159	1,711,159	-
WISCONSIN DEPARTMENT OF HEALTH SERVICES								
Emergency Medical Service Cost Reimbursement	435.162	N/A	-	11,242	-	11,242	11,242	-
Total Wisconsin Department of Health Services			-	11,242	-	11,242	11,242	-
TOTAL STATE PROGRAMS			\$ (213,738)	\$ 1,111,448	\$ 1,040,070	\$ 1,937,780	\$ 1,937,780	\$ -

See accompanying notes to schedule of expenditures of federal and state awards.

CITY OF JANESVILLE

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS For the Year Ended December 31, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards (the “schedule”) includes the federal and state award activity of the City of Janesville under programs of the federal and state government for the year ended December 31, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the *State Single Audit Guidelines*. Because the schedule presents only a selected portion of the operations of the City of Janesville, it is not intended to and does not present the financial position, changes in net position or cash flows of the City of Janesville.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual or modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available.

The underlying accounting records for some grant programs are maintained on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred. The accounting records for other grant programs are maintained on the accrual basis, i.e., when the revenue has been earned and the liability is incurred.

NOTE 3 – PASS-THROUGH GRANTORS

Federal funds have been passed through the following grantors:

- WI DOA – Wisconsin Department of Administration
- WI DOT – Wisconsin Department of Transportation
- City of Beloit – City of Beloit, Wisconsin
- Rock County – Rock County, Wisconsin

NOTE 4 – INDIRECT COST RATE

The City of Janesville has not elected to use the 10% de minimis indirect cost rate of the Uniform Guidance.

CITY OF JANESVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

SECTION I – SUMMARY OF AUDITORS’ RESULTS (cont.)

FEDERAL OR STATE AWARDS (cont.)

	Federal	State
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000	\$ 250,000

Identification of major state program:

State ID Number	Name of State Program
395.104	Transit Operating Aids
395.510	Transportation Economic Assistance

SECTION II – FINANCIAL STATEMENT FINDINGS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

FINDING 2016-001: MATERIAL WEAKNESS – INTERNAL CONTROL OVER FINANCIAL REPORTING

Repeat of Finding 2015-001

Criteria: Auditing Standards AU-C 265 requires auditors to communicate circumstances that were evaluated to be significant deficiencies or material weaknesses in the city’s structure of internal control.

Condition: During the financial audit, audit procedures and inquiries were performed to evaluate the effectiveness of controls over various transaction cycles. As a result of these procedures, we noted there was no independent second party review of year-end financial statements and year-end conversion journal entries. In addition, we identified adjustments required to be made to the financial statements prepared by the city.

Cause: Due to staffing and financial limitations, the city is not able to perform an independent review of the year-end financial statements and conversion entries.

Effect: Year-end financial statements prepared by the city contained material misstatements.

Recommendation: We recommend that year-end financial statements and year-end conversion journal entries be reviewed by a second individual to ensure appropriateness and accuracy.

Management Response: The city prepares high quality financial statements, conversion entries, and footnote disclosures for the auditors to review. However, because of the city’s size, management does not believe it is cost effective to hire the additional staff needed with the expertise to review all aspects of financial reporting, and relies on the auditor for some year-end financial statement and conversion entry review. Therefore, we anticipate that the material weakness in financial reporting review will continue to be reported in future years.

CITY OF JANESVILLE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2016

SECTION IV – OTHER ISSUES

1. Does the auditor's report or the notes to the financial statements include disclosure with regard to substantial doubt as to the auditee's ability to continue as a going concern? yes no
2. Does the audit report show audit issues (i.e., material non-compliance, non-material non-compliance, questioned costs, material weakness, significant deficiency, management letter comment, excess revenue or excess reserve) related to grants/contracts with funding agencies that require audits to be in accordance with the *State Single Audit Guidelines*:
- | | | |
|---------------------------------|------------------------------|--|
| Department of Transportation | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
| Department of Health Services | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
| Department of Natural Resources | <input type="checkbox"/> yes | <input checked="" type="checkbox"/> no |
3. Was a Management Letter or other document conveying audit comments issued as a result of this audit? yes no
4. Name and signature of partner 

Amanda Blomberg, CPA, Firm Director
5. Date of report September 27, 2017

CITY OF JANESVILLE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended December 31, 2016

FINDING 2015-001: MATERIAL WEAKNESS – INTERNAL CONTROL OVER FINANCIAL REPORTING

REPEAT OF FINDING 2014-001

Criteria: Auditing Standards AU-C 265 requires auditors to communicate circumstances that were evaluated to be significant deficiencies or material weaknesses in the city's structure of internal control.

Condition: During the financial audit, audit procedures and inquiries were performed to evaluate the effectiveness of controls over various transaction cycles. As a result of these procedures, we noted there was no independent second party review of year-end financial statements and year-end conversion journal entries. In addition, we identified adjustments required to be made to the financial statements prepared by the city.

Cause: Due to staffing and financial limitations, the city is not able to perform an independent review of the year-end financial statements and conversion entries.

Effect: Year-end financial statements prepared by the city contained material misstatements.

Recommendation: We recommend that year-end financial statements and year-end conversion journal entries be reviewed by a second individual to ensure appropriateness and accuracy.

Management Status: The city prepares high quality financial statements, conversion entries, and footnote disclosures for the auditors to review. However, because of the city's size, management does not believe it is cost effective to hire the additional staff needed with the expertise to review all aspects of financial reporting, and relies on the auditor for some year-end financial statement and conversion entry review. Therefore, we anticipate that the material weakness in financial reporting review will continue to be reported in future years.

CITY OF JANESVILLE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended December 31, 2016

FINDING 2015-002: SIGNIFICANT DEFICIENCY – CONTROLS OVER UTILITY ACCOUNTS RECEIVABLE AND REVENUE RECONCILIATION

Criteria: We performed our audit under Auditing Standards AU-C 315, which required us to review the city's internal controls over major accounting processes. As a result, we identified certain controls that we considered to be key controls that were not in place during the year under audit.

Condition: During the financial audit, we noted there were variances in revenues and receivables between the subsidiary MS Govern customer information system (CIS) and the New World accounting system. This led to an extensive IT analysis and recommendations. This difference was investigated by management and it was discovered that this was an ongoing reconciling issue. This resulted in an accounts receivable adjustment in 2015.

Cause: The city's reconciliation process was a highly manual process and prone to errors.

Effect: Weaknesses in internal controls over utility accounts receivable and revenue reconciliation increases the possibility of misstatements due to errors or fraud.

Recommendation: Receivables are a highly liquid asset and they should be strictly controlled. This should include quarterly reconciliations of the control accounts and adjusting the ledger to reflect any differences. Adjustments should be subject to the approval of management. In addition we recommend management establish a process to review the quarterly billings and user fee revenue for reasonableness. This could include comparing revenues to prior periods in light of changes in billing units, such as volume sold on customer counts. It could also include verifying the billing volumes to volumes treated or pumped. This type of analysis will also provide support for expected changes in the receivables balance.

Management Status: Staff had been performing monthly reconciliations and reporting the differences to the Clerk-Treasurer Division. Due to staff turnover and shortage, resolving those differences would get behind and then caught-up twice per year. Staff is now performing a monthly reconciliation of the batches exported from Govern to the batches imported to New World. This was a manual process but has since been automated. In addition, staff is now doing quarterly reconciliations of the general ledger to the A/R sub-system.

We now have a report that was written by the software vendor which provides usage and AR data by customer type and service type. This report is used to provide data to the PSC and DNR and for management analysis.

During this process, we found no irregularities that would suggest fraud, but rather a process using disjointed systems since implementation that had to be improved.

CITY OF JANESVILLE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended December 31, 2016

FINDING 2015-003: SIGNIFICANT DEFICIENCY – CONTROLS OVER RECONCILIATIONS

Criteria: We performed our audit under Auditing Standards AU-C 315, which required us to review the city's internal controls over major accounting processes. As a result, we identified certain controls that we considered to be key controls that were not in place during the year under audit.

Condition: During the financial audit, audit procedures and inquiries were performed to evaluate the effectiveness of controls over various transaction cycles. As a result of these procedures, we noted there were a number of year end account reconciliation issues. Specifically, the general checking account remains unreconciled at year end by \$210,083. The general checking account is a pooled cash account, and therefore, the impact on the unreconciled difference to the various funds cannot be determined.

Cause: Due to staffing and financial limitations, the city was not able to complete all reconciliations in a timely manner.

Effect: Weaknesses in internal controls over reconciliations increases the possibility of misstatements due to errors or fraud.

Recommendation: The unreconciled difference is not material to the city's financial statements; however, we encourage the city to take immediate action to reconcile this account. Further, we recommend that the city reconcile this account as well as the other accounts on a monthly basis.

Management Status: Reconciliations are closely tied to the Utility A/R finding and the tens of thousands of transactions going through the accounts. The function has been transferred to another division to address the workload and improve internal controls. Reconciliations will be performed and reviewed on a monthly basis going forward. During this process, we found no irregularities that would suggest fraud, but rather a complex process accessing multiple systems that needs to be improved.

The city took the conservative approach in 2015 and understated its assets and net position. An increase to revenues was recognized when identified with the final 2015 reconciliation. There are no similar open items for 2016.

CITY OF JANESVILLE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended December 31, 2016

FINDING 2015-004: SIGNIFICANT DEFICIENCY – CONTROLS OVER INFORMATION TECHNOLOGY

Criteria: We performed our audit under Auditing Standards AU-C 315, which required us to review the city's internal controls over major accounting processes. As a result, we identified certain controls that we considered to be key controls that were not in place during the year under audit.

Condition: During the financial audit, we evaluated information technology controls as they relate to financially significant applications. We noted that there were various shared system accounts with access to certain financial applications. One of these accounts was a vendor support account of which an individual in the Finance department had access. There is a risk that accountability cannot be established within the applications and that unauthorized users may have access to the financial application. In addition, the city does not have a formal change management procedure in place to ensure appropriate authorization, testing, and tracking of program changes, system changes, and maintenance.

Cause: The security issue was due to a Finance member backing-up an IT member.

Effect: Weaknesses in internal controls over information technology increases the possibility of misstatements due to errors or fraud.

Recommendation: We recommend that the City of Janesville perform a review of accounts with access to these applications and ensure that all users have a unique ID. Any generic, shared, temporary, and system accounts should be removed or disabled. In addition, a formal change management procedure should be in place for all program changes, system changes, and maintenance. Additionally changes should be authorized and tested before putting them into production and all changes should be formally tracked.

Management Status: The Finance member was part of the implementation team and access was used to help maintain other user permissions and during troubleshooting when program support responded to city help desk requests. Staff was aware of the issue and compensating measures were taken to monitor the activity. The Finance member made the supervisor aware of any activity and inserted documentation into the application to support the activity. The Finance member's access to the shared vendor support account was removed in 2016 and only IT staff now has such access.

CITY OF JANESVILLE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS For the Year Ended December 31, 2016

**FINDING 2015-005: 14.218 – COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT GRANTS
FEDERAL AWARD NUMBER: B14MC550014 AND B15MC550014 FEDERAL GRANTOR: U.S.
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

REPEAT OF FINDING 2014-003

Criteria: According to the terms and conditions of the awards, grantees must submit the quarterly SF425 financial reports by the 30th day following the end of each calendar quarter, and a final report is due 90 days following the end of the award period.

Condition/Context: During our testing of the summary schedule of prior audit findings, we tested the current status of prior year finding 2014-003. In 2014, the finding noted that the city did not submit the quarterly and final SF-425 reports to HUD on a timely basis. In 2015, we noted that the first and second quarter SF-425 reports were not submitted to HUD within the required timeframe. Our sample was not statistically valid.

Cause: In a previous year, the city obtained communications from the grantor indicating that the forms were not required to be submitted by the city, however, there was no known communication reinstating the requirement. Upon further inquiry with the grantor, it was determined that the forms should be submitted by the city on a retroactive basis for 2014 and 2015.

Effect: The grantor did not receive the financial information intended to be obtained through this reporting method on a timely basis.

Questioned Costs: None noted.

Recommendation: We recommend that the city continue to follow the newly implement procedure to complete, review, and submit the SF-425 reports to the grantor on a timely basis.

Management Status: The city retroactively submitted the final SF-425 for 2014, retroactively submitted the SF-425 reports for the first half of 2015, submitted the SF-425 reports on time for the second half of 2015, and implemented a procedure to complete, review and submit the SF-425 reports to the grantor on a timely basis going forward. All 2016 reports were filed on time.