



**Village of Shorewood,  
Wisconsin**

**Request for Proposal  
For  
Auditing Services**

**For the Fiscal Years Ending  
December 31, 2018, 2019 and 2020**

Date of Issue: Tuesday, August 7, 2018

Proposals must be received by: Friday, 4:00 p.m. CST, August 24, 2018

## VILLAGE OF SHOREWOOD REQUEST FOR PROPOSALS

### I. PURPOSE

The Village of Shorewood is requesting proposals from qualified firms of certified public accountants to audit its financial statements for the fiscal years ending December 31, 2018, 2019 and 2020 with the option of extending the contract to years 2021 and 2022 at the request of the Village. These audits are to be performed in accordance with auditing standards generally accepted in the United States of America.

There is no expressed nor any implied obligation for the Village to reimburse responding firms for any expenses incurred in preparing proposals in response to this request. During the evaluation process, the Village reserves the right, where it may serve the Village's best interests, to request additional information or clarification from proposers, or to allow corrections of errors or omissions. At the discretion of the Village, firms submitting proposals may be requested to make oral presentations as part of the evaluation process.

No subcontracting will be permitted.

#### *Entity to be Audited*

The Village is requesting a financial statement audit which includes all the funds, accounts, capital assets, long-term debt and activities of the Village of Shorewood and its Community Development Authority (CDA), component unit. The Village's other component unit, Business Improvement District, is audited by other auditor's and, therefore, is not a part of this request for proposal.

#### *Opinion*

The Village desires the auditor to issue a report on the fair presentation of the financial position of the governmental activities, the business-type activities and the Village's fiduciary fund and the Village's discretely presented component units in conformity with accounting principles generally accepted in the United States of America.

The auditor will issue an "in relation to" opinion on the Village's combining and individual fund statements and schedules. The auditor is not required to audit the introductory or statistical sections of the CAFR.

The auditor shall also be responsible for performing certain limited procedures involving required supplementary information required by the GASB as mandated by generally accepted auditing standards.

#### *Tax Increment District Audit(s)*

The Village has four tax increment districts.

The Village annually compiles the financial report on each district and provides the financial information to all overlying taxing units. No assistance with these reports is deemed necessary.

However, annual compliance audits of the Village's TID districts will be part of the overall engagement. The Village requests that the firm include, as a separate fee, an estimate for the completion of the annual TID compliance audits as part of the proposal response.

## **II. INFORMATION ABOUT THE VILLAGE**

The Village's 2017 Comprehensive Annual Financial Report (CAFR), as well as the most recent TID compliance audit reports, can be obtained at our website ([www.villageofshorewood.org](http://www.villageofshorewood.org), departments, finance department, financial documents).

Our 2017 Board communication and management letter is attached to this RFP. All 2017 work papers as prepared by the Village can be available for inspection, upon request.

The Village belongs to the Government Finance Officers Association of the United States and Canada and has submitted the Village's CAFR to the GFOA for participation in their Certificate of Achievement for Excellence in Financial Reporting since 2011. This Village has received this award in each of the past 7 years.

### *Village Staff*

The auditors' primary contact with the Village will be the Finance Director, who will coordinate the assistance to be provided by the Village.

Finance Director: Mark Emanuelson, CPFO, has been with the Village for the past five years. He was also the Assistant Finance Director at the City of Mequon for five years preceding his appointment as Finance Director for the Village of Shorewood. He prepares the financial statements, cash and investment work papers, loans receivable, taxes, debt, and all other parts of the CAFR. He also reviews all other work papers prepared. He is also a member of the GFOA, WGFOA and maintains 40 hours of CPE annually.

The Village's financial processes are somewhat decentralized in that each of the larger departments (public works, library and police and customer service) handle their own payroll data entry, accounts payable entry and cash receipting.

### *Computer Systems*

The Village uses the BS&A Software applications for most transactions. BS&A is a fully integrated system that the Village uses for general ledger, cash receipting, accounts payable and receivable, utility billing, budgeting and payroll. The Village will continue to use GCS tax software for tax bills and collections.

The selected firm will be given BS&A view only system access in order to efficiently facilitate the reviewing of any selected transactions and their related supporting documentation.

## AUDITOR DELIVERABLES

### *Timing*

Auditor presentation of financial statements and management letter to Village Board is expected to occur no later than the second meeting in May, which takes place on the third Monday of the month. The auditor shall be available to meet with elected officials at that evening meeting to answer questions regarding the completed audit or management letter, if requested.

We request that the auditor print 20 final copies of the Comprehensive Annual Financial Report (CAFR) and management letter, and 15 copies of each TID audit compliance report, and that these printed copies are available approximately one week prior to the Board meeting. The Auditor shall also provide these reports in PDF format for village records and public posting.

In order to meet the above deadline, the Village desires to begin final fieldwork approximately during the second week of March (March 10 to the 15). The Village recognizes that the auditor may wish to move the audit for their staffing convenience and the Village can be flexible with these dates, depending on staffing availability and assuming final deliverable dates are still attainable.

The Village does not have a preference for preliminary fieldwork dates but requests that the dates are mutually agreed upon around holidays/vacations/conferences, in advance.

Auditor comments on CAFR draft, recommended changes, if any, and draft management letter are to be provided absolutely no later than *one week prior to the print date*. We further desire that all internal control recommendations and findings are reviewed with management as soon as practicable.

The auditor in the person of a partner or manager shall be available not only during the audit preparation period, but also on an as-needed basis during the year to answer questions or provide guidance on any particular issue that may arise throughout the contract period.

### *Management Letter*

If, during the course of the examination, the auditor finds any weaknesses in internal control, the auditor shall summarize such findings and recommendations in the form of a separate management letter to the Village of Shorewood.

Auditors shall be required to make an immediate written report of all irregularities and illegal acts of which they become aware and present such report to the Village Manager and Village Board.

### *Work Paper Retention and Access to Working Papers*

Working papers and reports must be retained, at the auditor's expense, for a minimum of 3 years, unless the firm is notified in writing by the Village of Shorewood of the need to extend the retention period. The auditor will be required to make working papers available, upon request, to the Village.

In addition, the firm shall respond to the reasonable inquiries of successor auditors and allow successor auditors to review working papers relating to matters of continuing accounting significance.

### **III. VILLAGE DELIVERABLES**

All work papers requested at least 30 days prior to fieldwork will be provided electronically upon arrival for final fieldwork, excluding invoices or payroll records.

Trial balance files can be e-mailed the Friday before final fieldwork, if desired by audit team.

All parts of CAFR (transmittal letter, MD&A, financial statements, notes, RSI, SI and statistical sections) are drafted by Village and will be available no later than two weeks from the last date of final fieldwork.

Any cover images will be provided by the Village no later than 3 weeks after final fieldwork.

The Village provides a large conference room with wireless internet during audit fieldwork.

### **IV. PROJECTED SCHEDULE OF EVENTS**

The following is a list of key dates up to and including the date proposals are to be submitted:

- |                               |               |                     |
|-------------------------------|---------------|---------------------|
| - Request for proposal issued |               | August 7, 2018      |
| - Bidder's conference         | 1:00 p.m. CST | August 17, 2018     |
| - Due date for proposals      | 4:00 p.m. CST | August 24, 2018     |
| - Tentative Firm Interviews   | mornings      | September 4-7, 2018 |

The selected firm will be notified after official Village Board action, estimated at September 17, 2018. The Village requests that proposing firms be available for interviews on the dates listed above, if possible. Please note, not all firms may be interviewed.

### **V. CONTRACTUAL OBLIGATIONS**

The successful vendor will be required to enter into a contract with the Village of Shorewood in which the vendor will undertake certain obligations. These obligations include, but are not limited to, the following:

*Inclusion of Proposal* - The proposal submitted in response to this RFP will be incorporated as part of the final contract with the selected vendor.

*Indemnification and Insurance* - The successful vendor(s) shall indemnify and hold the Village of Shorewood and its officers, agents, employees and assignees, harmless from any liability imposed for injury whether arising before or after completion of work hereunder, or in any manner directly or indirectly caused, occasioned or contributed to, or claimed to be caused, occasioned or contributed to, in whole or in part, by reason of any act or omission, including strict liability or negligence of vendor, or of anyone acting under vendor's direction or control or on its behalf, in connection with or incident to, or arising out of the performance of this contract. The successful vendor shall maintain and shall require all of its subcontractors to maintain general liability insurance with limits of not less than \$1,000,000 per occurrence for the extent of the project.

## **VI. RIGHT OF THE VILLAGE TO REJECT PROPOSALS**

The Village of Shorewood reserves the right to reject any and all proposals or any part of any proposals, to waive minor defects or technicalities, or to solicit new proposals on the same project or on a modified project which may include portions of the originally proposed project as the Village of Shorewood may deem necessary in its best interest. The Village also reserves the right to negotiate with any vendor regarding all or part of any proposal that is in the best interest of the Village.

## **VII. CONFIDENTIALITY OF DOCUMENTS**

All responses to the RFP submitted by vendors shall be deemed public documents at the time they are opened by Village of Shorewood. The RFP is intended to be worded in a manner so as not to elicit proprietary information from the vendor. If proprietary information is submitted as part of the proposal, such information is to be labeled proprietary and be accompanied with a request that the information is to be held in confidence by the Village of Shorewood until such time as the contract is set. Any proposal that is submitted with a general statement or limitation that would prohibit reasonable public inspection shall be considered non-responsive and shall be rejected.

## **VIII. PROPOSAL RESPONSE FORMAT**

### *Submission Format and Due Date*

Proposals may be provided in either printed/bound with electronic format or solely submitted in electronic format. Printed proposals should be addressed to:

Village of Shorewood  
Attn: Mark Emanuelson  
3930 N. Murray Ave  
Shorewood, WI 53211

Printed proposals should be clearly marked "FY2018 AUDIT RFP". Printed proposals must include an adobe readable format submission, less than 5 MB in size, in addition to the bound materials.

Electronic submissions should be e-mailed to [memanuelson@villageofshorewood.org](mailto:memanuelson@villageofshorewood.org), and are required to be in adobe readable format, less than 5 MB in size, in order to be receivable by the Village.

Confirmation of receipt of the proposal can be provided, if requested by the vendor.

All proposals are due no later than four (4) p.m. on Wednesday, August 24, 2018.

### *Proposal Content*

Firms are not limited to the information requested below. However all of these topics below must be covered in order for the firm to be considered.

### **Table of Contents**

Clearly identify the material by section and page number.

### **Profile of the Proposer - Firm**

The firm shall provide an affirmative statement that it is independent of the Village of Shorewood as defined by generally accepted auditing standards. The firm shall also list and describe the firm's professional relationships involving the Village of Shorewood or any of its agencies, its elected officials and employees for the past 5 years with a statement explaining why such relationships, if any, do not constitute a conflict of interest relative to performing the proposed audit.

In addition the firm shall give the Village written notice of any professional relationships entered into during the period of this agreement should it be thought to cause a conflict.

An affirmative statement should be included indicating that the firm and all assigned key professional staff are properly licensed to practice in Wisconsin.

The proposal shall state the size of the firm, the size of the firm's governmental audit staff, the location of the office from which the work on this engagement is to be performed and the number and nature of professional staff to be employed in this engagements.

The firm shall indicate approximately what percentage of the firm's revenue is generated from auditing engagements for GASB regulated entities.

Detail any firm involvement in government specific organizations, trainings, and industry involvement such as GFOA, WGFOA, the Governmental Audit Quality Center, AGA, etc.

The firm is also required to submit a copy (or link to) of its most recent external quality control review, with a statement whether that quality control review included a review of specific government engagements.

Finalists should be prepared to provide information on the results of any federal or state desk reviews or field reviews of its audits during the past 3 years and on the circumstances and status of any disciplinary action taken or pending against the firm during the past three years with state regulatory bodies or professional organizations. Finalists should also be prepared to identify and describe any litigation the firm was involved in over the past three years which dealt with the quality of audit work or pricing of auditing services rendered.

For the firm's personnel that will be assigned responsibility for the audit, provide at least three engagement references from clients with similar scope to the Village. Please also specifically note the following information about those engagements:

- Identify which received GFOA's Certificate of Achievement for Excellence in Financial Reporting.
- Identify which of those clients prepared their financial statements (and notes) or CAFR internally.
- Identify the scope of work and years audited, and the name, phone number and e-mail address of the primary client contact.

### ***Profile of the Proposer – Staffing***

The firm should identify the principal supervisory and management staff, including engagement partners, managers other supervisors and specialist, who would be assigned to the engagement and indicate whether each person is licensed to practice as a certified public accountant in Wisconsin. The firm should provide information on the government auditing experience of each person, including membership in professional organizations relevant to the performance of this audit.

Engagement partners, managers, other supervisory staff and specialists may be changed if those personnel leave the firm, are promoted or assigned to another office. These personnel may also be changed for other reasons with the express prior consent of the Village. However, in either case, the Village retains the right to approve or reject replacements. Other audit personnel may be changed at the discretion of the proposer provided that replacements have substantially the same of better qualifications or experience. The Village's consent shall not unreasonably be withheld.

### ***Audit Process***

The proposal should set forth a work plan, including an explanation of the audit methodology to be followed to perform the services required in this request for proposal. Proposers will be required to provide the following information on their audit approach:

- Proposed segmentation and structure of the engagement, including which pieces are on-site vs. off-site.
- Level of audit staff and estimated number of hours to be assigned to each proposed segment of the engagement.
- Proposed approach to be taken to gain and document an understanding of the Village's internal control structure.
- Typical approach to testing the internal control structure.
- Approach to collaboration and technical guidance in support of municipal staff in the preparation or review of unusual or complex accounting or reporting activities, such as pension and OPEB recognition entries and reporting.

### ***Fee Proposal***

The proposed fees should be presented using Appendix A. The fee proposal should contain all pricing information relative to performing the audit engagement as described in this request for proposal on a not to exceed basis for the years ending December 31, 2018, 2019 and 2020, along with a Village option for years 2021 and 2022. The option will be solely that of the Village based on satisfactory negotiations or the fee with the auditor at that time. The total all-inclusive price is to contain all direct and indirect costs including all out-of-pocket expenses.

Describe the circumstances under which you would propose to increase the fee shown in Appendix A and how you would communicate such a potential increase to the Village of Shorewood.

If it should become necessary for the Village to request that the auditor render any additional services to either supplement the services requested in this request for proposal or to perform additional work as a result of the specific recommendations included in any report issued on this engagement, then such additional work shall be performed only if set forth in an addendum to the contract between the Village and the firm.

Any such additional work agreed to between the Village and firm shall be performed at the same rates set forth in the schedule of fees included in the dollar cost bid. Work performed outside the scope of services outlined in this request is to be performed only at the written request of the Village.

## **IX. EVALUATION PROCESS**

Proposals will be evaluated by a selection committee consisting of the Finance Director, Village Manager and a Village Board representative. The selection committee will evaluate the proposal submitted by each firm using the criteria shown in the next section.

During the evaluation process, the selection committee may, at its discretion, request any one or all firms to make oral presentations in an interview process. Such presentations will provide firms with an opportunity to answer any questions the selection committee may have on a firm's proposal. Not all firms may be asked to make such oral presentations.

The selection committee will identify the proposal which is judged to be the most closely aligned to meet the Village's needs and best able to serve the Village based on the firms profiles, references, audit approach, technical ability, and fees. The selection committee will then present its recommendation for contract award to the Village Board.

Award of the contract is approved by the Village Board.

## **X. EVALUATION CRITERIA**

The following represent the principal selection criteria which will be considered during the evaluation process.

### *General and Technical Requirements*

- The firm is independent and licensed to practice in Wisconsin.
- The firm adheres to the instructions in this request for proposal on preparing and submitting.
- The firm's personnel have received adequate continuing professional education pertinent to the audit of governments.
- The firm's experience and performance on comparable government engagements.
- The quality of the firm's professional personnel to be assigned to the engagement and the quality of the firm's management support personnel to be available for technical consultation.
- Firm's quality control processes including involvement organizations such as the Government Audit Quality Center.
- Firm's approach to the audit process and general responsiveness to proposal.
- Other industry involvement and support, demonstrated by participation in government and accounting organizations, training events and speaking experience.

### *Fee Proposal*

- Fee proposal will be evaluated both in the monetary cost to the Village as well as the anticipated staff time necessary to complete the audit based on the firms identified audit process, and the estimated ability to perform the engagement within the hours proposed.



**VILLAGE OF SHOREWOOD, WISCONSIN**

AUDITOR'S COMMUNICATION TO THE  
BOARD OF TRUSTEES

For the Year Ended December 31, 2017



SIKICH.COM

**VILLAGE OF SHOREWOOD, WISCONSIN**  
**AUDITOR'S COMMUNICATION TO THE VILLAGE BOARD**  
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13400 Bishops Lane, Suite 300  
Brookfield, WI 53005  
262.754.9400

**SIKICH.COM**

May 18, 2018

The Honorable President  
Members of the Village Board  
Village of Shorewood  
3930 N. Murray Avenue  
Shorewood, Wisconsin 53211-2303

Ladies and Gentlemen:

As part of our audit process we are required to have certain communications with those charged with governance at the beginning of our audit process and at the conclusion of the audit. Those communications include information related to the planned scope and timing of our audit, as well as other information required by auditing standards. Our communication at the beginning of our audit process was sent to you on December 20, 2017.

In addition, auditing standards require the communication of internal control related matters to those charged with governance. Our management letter, as well as a listing of future pronouncements that may affect the Village, are enclosed within this document.

This information is intended solely for the use of the Board of Trustees and management of the Village of Shorewood and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in black ink that reads 'Sikich LLP'.

Sikich LLP  
By: Daniel A. Berg, CPA  
Partner

13400 Bishops Lane, Suite 300  
Brookfield, WI 53005  
262.754.9400

**SIKICH.COM**

May 18, 2018

To the Village Board  
Members of the Village Board  
Village of Shorewood

We have audited the financial statements of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Shorewood, Wisconsin (the Village) for the year ended December 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated October 31, 2017. Professional standards also require that we communicate to you the following information related to our audit.

### **Qualitative Aspects of Accounting Practices**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Village are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2017, except for the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinions were not modified with respect to this matter. We noted no transactions entered into by the Village during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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

The net pension liability is determined through a series of actuarial calculations, and the Village's proportionate share of the net pension liability is determined by their share of contributions into the plan. Information regarding the actuarial estimates used is determining the Village's net pension liability and the Village's proportionate share of the net pension liability is disclosed in Note IV. A. to the financial statements and the required supplementary information which accompanies the financial statements. We noted no other sensitive estimates affecting the Village's financial statements.

The financial statement disclosures are neutral, consistent, and clear.

### **Difficulties Encountered in Performing the Audit**

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

### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Our audit procedures did not detect any such misstatements.

### **Disagreements with Management**

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representation**

We have requested certain representations from management that are included in the management representation letter dated May 18, 2018.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Village's financial statements or a determination of the type of auditor's 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.

### **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 Village'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 Management Discussion and Analysis, Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, Schedule of Funding Progress, Proportionate Share of the Net Pension Liability (Asset), Schedule of Village of Shorewood Contributions, and Notes to the Required Supplementary Information, which are required supplementary information (RSI) that supplement 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 supplementary information, which accompany the financial statements but are not RSI. With respect to this 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 of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on Introductory Section and the Statistical Section, which accompany 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.

## **Restriction on Use**

This information is intended solely for the use of the Board of Trustees and management of the Village of Shorewood, Wisconsin and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Sikich LLP*

Sikich LLP

By: Daniel A. Berg, CPA

Partner



**VILLAGE OF SHOREWOOD, WISCONSIN**

**MANAGEMENT LETTER**

December 31, 2017

13400 Bishops Lane, Suite 300  
Brookfield, WI 53005  
262.754.9400

**SIKICH.COM**

To the Village Board  
Members of the Village Board  
Village of Shorewood, Wisconsin

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Shorewood, Wisconsin (the Village) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Village's internal control over financial reporting (internal control) as a basis for designing our 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 Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be 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. In addition, we reviewed the status of the deficiencies from December 31, 2016. The status of these deficiencies is included in Appendix A.

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 did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Village's written responses to the comments identified in our audit have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

*Sikich LLP*

Brookfield, Wisconsin

May 18, 2018

## OTHER COMMENTS

### Future Accounting Pronouncements

The Governmental Accounting Standards Board has issued a number of pronouncements that may impact the Village in the future.

GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*, addresses issues regarding presentation of payroll-related measures in RSI, the selection of assumptions and the treatment of deviations, and the classification of payments made by employers to satisfy employee contribution requirements. The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2016, except for paragraph 7, which is effective in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This statement requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimate of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this statement are effective for the fiscal year ending December 31, 2019. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, is intended to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments and the criteria is generally focused on (1) whether a government is controlling the assets of a fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The requirements of this statement are effective for the fiscal year ending December 31, 2019. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses a number of issues across a spectrum of topics including issues related to blending component units where the primary government is a business type activity that reports basic financial statements in a single column, accounting for goodwill, fair value measurement and application related to real estate held by insurance activities and measuring certain investments at cost or amortized cost, and various issues related to accounting and reporting for postemployment benefits (pensions and other postemployment benefits [OPEB]). Statement No 85 is effective for fiscal years ending December 31, 2018 and thereafter, early application is allowed and encouraged.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, is intended to improve accounting and financial reporting for in-substance defeasances of debt, prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this statement are effective for the fiscal year ending April 30, 2019. Earlier application is encouraged.

## **OTHER COMMENTS (Continued)**

### **Future Accounting Pronouncements (Continued)**

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset and aims to enhance comparability of financial statements among governments. This statement also requires additional notes to the financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this statement are effective for the fiscal year ending March 31, 2021. Earlier application is encouraged.

**APPENDIX A  
STATUS OF PRIOR YEAR COMMENTS  
FROM DECEMBER 31, 2016**

**SIGNIFICANT DEFICIENCIES**

**1. Custodial Credit Risk**

*Condition:* For an investment, custodial credit risk is the risk that, in the event of a failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Currently, all of the Village's agreements with its investment managers include clauses that allow the investment managers to retain custody of the Village's investments.

*Recommendation:* The best way for the Village to protect itself against custodial credit risk is to structure its agreements with investment managers to require that custody of investments purchased by its investment managers will be assigned to a trust department or another independent custodian. We recommend the Village renegotiate its agreements with investment managers to include this requirement.

*Status:* Recommendation was implemented in 2017.

**2. Financial Statements of Business Improvement District (BID)**

*Condition:* Accounting Standards are set by the Government Accounting Standards Board for state and local governmental and quasi-governmental entities. All other entities follow the accounting standards set by the Financial Accounting Standards Board (FASB). The standard setting boards have issued guidance on when it is proper to follow governmental accounting standards. During our review of the audited financial statements of the BID, we noted that the board of directors of the BID is appointed by the Village President. This satisfies the requirement for reporting under governmental accounting standards. Currently the BID reports under financial accounting standards.

*Recommendation:* The Village should require that the BID report according to GASB's standards. This change will no longer require Village staff to manually convert the report for purposes of preparing the Village's Comprehensive Annual Financial Report.

*Status:* The vendor chosen to do this audit are not capable of reporting in accordance with GASB. Therefore, this comment has not been implemented.

**3. Segregation of Payroll Duties**

*Condition:* During our review of the access controls in the Village's accounting system, we noted that the Administrative/Payroll specialist has access to both custody/maintenance of employee data as well as the ability to process payroll transactions. Upon further review, we noted that the Finance Director also has similar access in his backup role. When individuals have the ability to add or change employee data and also process payroll, there is a risk that fraudulent activity could occur such as overpayment or adding fictitious employees.

## **SIGNIFICANT DEFICIENCIES (Continued)**

### **3. Segregation of Payroll Duties (Continued)**

*Recommendation:* We recommend that the Village segregate the duties of maintaining employee data and processing payroll both in the primary and backup roles. If situations arise where an employee that is responsible for processing payroll is on paid leave, a designated backup should be appointed. Any activity processed by the backup employee should be adequately reviewed and approved by an individual that is separate from the payroll processing function. This review and approval should be documented.

*Status:* Comment is still applicable as of December 31, 2017.

*Management's Response:* While management believes that there are sufficient measures in place to prevent or detect any significant ongoing payroll processing errors or fraudulent activity, we do concur that implementing this recommendation would both improve control and assist in documenting that all employee level entries have been properly and duly entered into the payroll system. Management will continue to work towards establishing new standard practices which will remedy this issue, but is constrained by the limited number of employees available to segregate these functions.

### **4. Census Data**

*Condition:* GASB Statement 68 was issued in June of 2012 and contained requirements for governments for accounting and financial reporting for pensions. This statement establishes standards for measuring and reporting pension liabilities, deferred inflows/outflows of resources and expenses/expenditures. The pension liability carried on the financial statements is dependent upon accurate census data information for the plan participants (date of hire, date of birth, current wages, etc.). During our review of the Village's controls over the census data information, we noted that there is no documented independent review of the census data prior to the data being submitted to WRS due to a lack of segregation of payroll duties. However, our review of the data did not disclose any errors in the participants' information that we tested.

*Recommendation:* We recommend that the Village establish internal controls over the census data information. This includes reviewing the input information for participants into the payroll system, annual review of the wages for participants reported with the census data, and documentation of this review.

*Status:* Comment is still applicable as of December 31, 2017.

*Management's Response:* As all WRS census data is a directly sourced from the data provided to be entered into the payroll system. Management believes that any processes which are implemented to address the previous segregation of duties for payroll entry and review, will also provide the validation needed for this item as well.

## ADVISORY COMMENTS

### 1. Water Fund Cash Deficit

*Condition:* The Water Fund has borrowed cash from the General Fund in the form of an interfund loan. The Water Fund maintains a deficit cash balance at year end, however, the financial statements indicate that the scheduled interfund payment from the Water Fund to the General Fund has been made during 2016. The General Fund currently shows a nonspendable fund balance of \$650,000 related to its loan to the Water Fund.

By converting the current year advance payment to a short term interfund loan (deficit cash) the Village is artificially increasing unassigned fund balance and decreasing non-spendable fund balance for an advance that is not being repaid.

*Recommendation:* We recommend that the Village reconsider its payment schedule for the Water Fund advance to structure the payment schedule in such a way that the Water Fund can afford to repay the General Fund without incurring a deficit cash balance to do so.

*Status:* Recommendation was implemented in 2017.