



To the Members of the Town Board
Town of Washington
Washington Island, Wisconsin

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit, and the aggregate remaining fund information of the Town of Washington (Town) as of and for the year ended December 31, 2019. 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 information in our engagement letter to you as well as verbally during our planning meetings. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free from material misstatement. Our audit of the financial statements does not relieve you or management of your responsibilities.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining 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. Material misstatement may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. Any internal control related matters that are required to be communicated under professional standards are included later in this letter.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the schedules of proportionate share of the net pension liability (asset) and employer contributions and schedule of budgetary comparison which supplement the basic financial statements, was to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance, we did not express an opinion or provide any assurance on the RSI.

Our responsibility with respect to the budgetary comparison information, which supplements the basic financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the budgetary comparison information was not audited and, because limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the budgetary comparison information.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible 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 Town of Washington are described in Note 1 to the financial statements. The Town adopted GASB Statement No. 84, *Fiduciary Activities*, as stated in Note 1 of the financial statements. We noted no transactions entered into by the governmental unit 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 financial statements were:

Management's estimate of the useful lives of the capital assets is based on lives generally accepted by similar entities. We evaluated the key factors and assumptions used to develop the estimated useful lives in determining, depreciation and that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the pension liability is based on an actuarially determined amount. We evaluated the key factors and assumptions used to develop the pension asset in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the other post-employment benefits (OPEB) liability is based on an actuarially determined amount. We evaluated the key factors and assumptions used to develop the OPEB liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to the financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of deposits and the related risks associated with them in Note 2 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the District's cash and investments.

The disclosure of defined benefit pension plan and the related risks associated with them in Note 11 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the District's defined benefit pension plan.

The disclosure of other post-employment benefits and the related risks associated with them in Note 12 to the financial statements. The footnote was prepared based on the requirements of the Governmental Accounting Standards Board and is intended to inform readers as to the risk associated with the District's other post employment benefits.

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

Difficulties Encountered in Performing the Audit

We encountered no 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. The misstatements detected as a result of audit procedures and corrected by management were material, individually and in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter, dated May 29, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with 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 government unit'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 Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the government activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Washington as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Town of Washington's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Washington's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Washington's internal controls.

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 significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies in the Town of Washington's internal control to be material weaknesses.

Segregation of Duties - The Town has a limited number of people who are responsible for and perform substantially all of the bookkeeping and accounting functions. Good internal control requires a complete separation of duties with respect to the handling and recording of transactions. In order to provide for an adequate segregation of duties, additional personnel may have to be involved in the performance of the accounting and bookkeeping functions. We recognize that this may not be practicable based on the size of the Town and limited resources. This is not unusual for entities your size, but we are required to inform you that this condition exists. Because some procedural controls do not exist, the board has compensating controls such as approval of invoices and review of receipts and revenues which allow it to rely on its knowledge of the Town's operations in order to safeguard assets.

Financial Reporting - One of the components of internal control over financial reporting is that staff of the Town be sufficiently knowledgeable to record the entity's financial transactions in accordance with generally accepted accounting principles (GAAP) and to prepare the entity's financial statements including the footnotes in accordance with those principles. While the Town's staff is capable of recording the cash receipts and disbursements, they do not have the training in GAAP to prepare financial statements including the related notes in accordance with GAAP. The Town's management does review the financial statements and footnotes and accepts responsibility for them. This matter is common in most small organizations since they do not have the resources to devote to this area of internal control.

Other Matters

In addition, we felt the other matters described in the following paragraphs were important to the operation of the Town of Washington. These matters may involve internal controls, general operations, recommendations for the adoption of policies and other such items that we feel will enhance the Town of Washington.

Prior Year Observations

Budget

During audit fieldwork, it was noted that some budgetary categories were overspent. It is the responsibility of the Town to ensure all expenditures of the various departments are within the appropriate line item of the applicable budget. Prior to the approval of an expenditure the Town should amend the budget categories in order to be in compliance in the Wisconsin State Statutes. The budgets should also be monitored by the responsible department supervisors and the individuals should refrain from expenditures until proper approval and budget amendments are obtained.

Status (12/31/19)

To address this, Resolution 2019-04 was developed and passed, which limited the authority of the Town Office to pay invoices which exceeded either the summary budget or an individual line item, without prior Board approval. In addition, Resolution 2019-16 was developed and passed, which attempted to forecast year-end spending in August, and then revised the 2019 budget with an identified savings of \$104,000. Although full compliance with the Resolution 2019-04 was not achieved, better results in controlling expenses were obtained through the combined effect of these two resolutions.

Contract and Purchase Policies

The Town should establish a formal purchasing policy. This policy should include spending approval guidelines which would specify the level of approval need for purchases; many times this is based on a dollar range. In addition, a policy should be developed which would specify the individuals who have authority to enter into contracts on behalf of the Town. This policy could also be based on dollar value ranges. Both policies should be explicit as to when Town Board approval is needed.

Status (12/31/19)

The Board adopted resolution 2019-10 to set a project and purchasing policy for the Town.

Required Bidding for Public Construction

All public construction, the estimated cost of which exceeds \$25,000, shall be let by contract to the lowest responsible bidder. In addition, if the estimated cost of any public construction exceeds \$5,000 but is not greater than \$25,000 the board of public works shall give a class 1 notice, of the proposed construction before the contract for construction is executed. This does not apply to public construction if the materials for such a project are donated or if the labor for such a project is provided by volunteers. We recommend the Town comply with the statutes for any upcoming projects in 2019.

Status (12/31/19)

This remains an issue to be addressed.

Fire Department Wages

We tested payroll for the month of December which included the Town as well as the Fire Department payroll. We reviewed the authorized pay rates and the time cards for employees. During our review, we referenced Fire Department Ordinance §50-7 which addresses compensation for the fire department. It indicates the following:

"The Fire Chief and the Assistant Chief may receive an annual salary as set by the Town Board. They may receive per-diem and mileage expenses for meeting attendance requested by the Town Board or such other meetings that may be of importance with prior approval of the Town Board or the Town Chairperson in cases that sufficient notice of such meetings is not given in time for the Town Board to take action. All members shall receive compensation for actual fire calls and for meetings and joint exercises attended. The formula for compensation shall be set by the Fire Department and reviewed annually by the Town Board. All training courses attended by members of the Fire Department shall be paid by the Town Board; this includes any training materials that may be required."

During our testing it was noted that fire department members are being paid for items which indicated as work nights, maintenance, administrative, trash, Christmas gift wrapping, and others. The compensation policy should be modified to include these items if it's the Town's intent to compensate members for these activities.

In addition, the Fire Chief had numerous hours for administrative time such as payroll, completing various reports, office, maintenance, and cleaning. The Fire Chief was paid for actual calls, meetings, and trainings as well which are specifically covered as noted above. The Town should review the administrative related duties of the fire chief and determine which items are covered by the annual salary and which items are eligible for separate compensation at an hourly rate.

Status (12/31/19)

This remains an issue to be addressed.

Fund Balance Reserve

The fund balance of the general fund at December 31, 2019 is \$1,389,790 of which \$931,988 is unassigned. The Town has a policy to have a fund reserve of 25% of the current levy value which based on the tax levy for the year was approximately \$285,000. As of the end of the year, the Town is in compliance with the policy based on 25% of the tax levy for 2020, the reserve amount should be approximately \$326,342.

Status (12/31/19)

This appears to be resolved in the current year.

Current Year Observations

Landfill Cash

The landfill has an established fee schedule. The fee schedule is not being enforced and landfill customers are not required to pay the fee at the time the service is rendered. There is not an appropriate receipt system in place to ensure that all funds are being collected and deposited. We recommend that a system be implemented. The system could be an electronic cash register combined with the landfill customer signing a pre-numbered receipt acknowledging the fee they pay. As an alternative, the customer could be asked to complete a prenumbered envelope and to place the appropriate cash in the envelope after the landfill supervisor observes the appropriate fee being paid. These receipts should be placed in a locked box. The envelopes should not be opened by the landfill and instead should be brought to the Town office intact for counting and verification. The town office staff should maintain a log which tracks the receipt number on the envelope. Any missing envelopes should be accounted for and investigated if recurring issues are present.

Windows 7 Professional Operating System

The Town has computers with Windows 7 Professional as the operating the system. The support for Windows 7 ended in January, 2020 and is no longer supported. The security risks related to the continued use of these computers is extremely high. Municipalities are a current target of hackers and ransomware. We urge the Town to upgrade its system immediately.

Recreation Center

The recreation center maintains a log of income which is used to maintain an excel spreadsheet which is reconciled to the monthly deposit. Cash and checks are store in a lock box until they are deposited. While there is security on the storage of the checks, we recommend that funds be brought to the Town at least weekly for deposit. In addition, to the spreadsheet and checks that are provided to the Town, the manager should also provide a copy of the daily logs as documentation of the reconciliation.

Sick Leave Absence Policy

The Paragraph of Concern:

"All sick-leave absences within each month will be reviewed during closed session of the subsequent Regular Town Board (or as designated on the agenda) to assure consistent application of this benefit is maintained across departments and work groups."

The ADA mandates that all medical information be kept in a file separate from the employee's personnel file and in a location that is only accessible to authorized personnel. Under limited circumstances, medical information can be shared outside of the authorized administrator. Examples of when medical information can be shared under the ADA includes situations where accommodations are required and the employee's immediate manager can provide appropriate input; workman's compensation claims where medical information can be released to appropriate WC carrier personnel, medical information disclosed to insurance companies for specific reasons.

While calling out sick doesn't inherently qualify as an American with Disabilities Act (ADA), there are absolutely going to be situations where it will. Almost any chronic illness is going to be an ADA issue including depression, Crohns disease, Migraine, Fibromyalgia, Lyme disease, Heart disease, diabetes, etc. It is almost a 100% guarantee that at least several of the 'call-outs' in a given year *could* be ADA qualifying.

Reviewing the reasons for sick leave with the full board is not only unnecessary (and not a good use of their time), but it is also a violation of the ADA and could easily get them into trouble.

We recommend the town board designates one, and only one, person to monitor sick leave. An administrator/HR representative would be preferable. The Board can accomplish this through the chair of the HR committee, if there is one, or select a member of the board to review.

Closing

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various governmental unit personnel, and we will be pleased to discuss them in further detail at your convenience to perform any additional study of these matters, or to assist you in implementing the recommendations.

We thank you for allowing us to be of service to the Town of Washington. We received complete cooperation and appreciate your consideration of our comments and your implementation of suggestions.

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

KerberRose SC

KerberRose SC
Certified Public Accountants
May 29, 2020