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 of
City of Stoughton

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, each major fund and the aggregate remaining fund information of the City of Stoughton (the City), as of and for the year ended December 31, 2022 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 18, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2022-001 and 2022-002, that we consider to be material weaknessess.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 financial statements. 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*.

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The City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's response was not subjected to the other 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 US, LLP

Madison, Wisconsin
July 18, 2023

Financial Statement Findings Required to Be Reported in Accordance With *Government Auditing Standards*

Finding 2022-001: Material Weakness – Internal Control Over Financial Reporting

Criteria: AU-C Section 315 requires auditors to report a material weakness when the auditor prepares the annual financial statements and footnotes, identifies material audit entries or the auditor prepares the schedule of expenditures of federal and state awards.

Condition: We, as your auditors, prepared the annual financial statements, noted material journal entries and prepared the GASB No. 34 conversion entries.

Cause: The City does not have the resources required to prepare the GASB No. 34 conversion entries and the annual financial statements and footnotes.

Effect or Potential Effect: There is a greater risk that the City's financial statements will not contain all of the required disclosures or be materially misstated if prepared by your auditors.

Recommendation: We recommend that the City put in place procedures to determine if resources would be available to prepare a complete set of financial statements without material changes.

Management's Response: Management agrees that the current staffing levels in the Finance Department do not allow timely journal entry preparation for year-end financial statements as well as the review of financial activity before audit statements are prepared by the outside audit firm. Management has submitted a proposal for the addition of a four-year degreed accountant to the department on July 3, 2023 to help alleviate this issue.

Finding 2022-002: Material Weakness – Internal Control Environment

Criteria: According to Statement on Auditing Standards (SAS) AU-C Section 315, sufficient internal controls should be in place that reduce the risk of material misstatement to the financial statements due to fraud or error.

Condition: There is a control that is not currently in place related to monthly and year-end accounting. Adjusting journal entries and supporting documentation should be reviewed and approved by an appropriate person who is not the original preparer.

Cause: Due to staffing and financial limitations, the proper internal controls are not in place to achieve adequate segregation of duties.

Effect or Potential Effect: Errors or irregularities could occur as part of the accounting processes that might not be discovered by management or the governing body.

Recommendation: We recommend that a designated employee review the segregation of duties, risks and these potential controls and determine whether additional controls should be implemented. This determination should take into consideration a cost / benefit analysis.

Management's Response: Management agrees with the control of journal entries being reviewed and approved by an appropriate person who is not the original preparer. The multiple instances where this occurred was when the Director of Finance/Comptroller was making multiple changes to the accounting and budgetary controls, which was often occurring on nights and weekends when staff was not available for review. These wholesale changes are greatly reduced during calendar year 2023. In addition, with only three people who typically make journal entries, there are often instances where no other staff member is available to the review and approval of journal entries. The addition of the new accountant will help alleviate this issue.