

To the Village Board of Trustees and Management
Village of Cambridge, Wisconsin

In planning and performing our audit of the basic financial statements of the Village of Cambridge (“Village”) as of and for the year ended December 31, 2022, 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 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 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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Village's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Village's internal control to be material weaknesses:

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

At this time, due to staffing and financial limitations, the proper internal controls are not in place to achieve adequate segregation of duties. As a result, errors, irregularities or fraud could occur as part of the financial reporting process that may not be discovered by someone in your organization.

There are certain controls that are not currently in place related to the utility billing and receipt transaction cycles, in which there is no verification and reconciliation after the utility clerk processes the readings, sends bills to third party to mail. This also occurs when the receipt is provided, recorded, and deposited at the bank, which is solely completed by the

utility clerk. As a result, there is a risk that erroneous or unauthorized transactions or misstatements could occur without the knowledge of management or the governing body.

Since the controls or other compensating controls are not currently in place, errors or irregularities could occur as part of the accounting processes that might not be discovered by management or the governing body. Therefore, the absence of these controls is considered to be a material weakness.

We recommend that the Village segregate the control over cash receipts and general ledger entry wherever possible. We also recommend continued Board oversight of the reports noted previously as well as a comparison of budget to actual at interim periods throughout the year.

2. **Preparing drafts of the financial statements and notes** - The Village's management (Administrator) is responsible for establishing and maintaining internal control and for the fair presentation of the Village's basic financial statements; supplementary information and disclosures in the financial statements in conformity with U.S. generally accepted accounting principles (GAAP). The Village does not have a system of internal control that would provide management with a reasonable assurance that the Village's financial statements and related disclosures are complete and presented in accordance with GAAP, as the Clerk-Treasurer is not trained in GAAP financial reporting. As such, management has requested us to prepare a draft of the financial statements and supplementary information, including the related note disclosures. With several highly technical Governmental Accounting Standards Board pronouncements, this finding is very common in municipalities of your size.
3. **Material audit adjustment** – During the audit, we noted a prior period adjustment was necessary for payroll tax accrual accounts which were not recorded to the correct liability accounts. This had the effect of decreasing the fund balance in the general fund and increasing expenditures within the general fund by \$73,316. We did assist with other year-end journal entries related to areas of the audit such as recording the tax roll, properly recording capital assets and depreciation in the utilities, recording adjustments and errors in utility billing to adjust to the accounts receivable listing, adjusting year-end ARPA deferred revenues, recording year end accounts payable and properly reclassifying fund balance and net assets balances. These were adjustments that management requested our assistance with using information provided by the Village. Ideally, there would be no prior period adjustment required; it does appear to be an isolated incident related to the prior period adjustment.

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

Bauman Associates, Ltd.

CERTIFIED PUBLIC ACCOUNTANTS

Eau Claire, Wisconsin
October 30, 2023