

**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 Waterloo

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 (*Government Auditing Standards*), 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 Waterloo (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 15, 2024.

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 were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002, that we consider to be material weaknesses.

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*.

The City's Response to Finding

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding 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

Milwaukee, Wisconsin
April 15, 2024

Financial Statement Findings

Finding 2023-001 Internal Control Environment

Condition: There is a lack of segregation of duties and other controls in relation to the accounting functions.

Criteria: Internal controls should be in place to provide reasonable assurance that individuals have access to only one phase of the accounting process.

Cause: The City does not have the staffing levels necessary to completely segregate accounting functions.

Effect: Because of the lack of segregation of duties and other controls, the accounting records have an increased risk of misstatement due to error or fraud.

Recommendation: The City Council and management should rely more heavily on their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Management's Response: The City, including the City Council, is aware that the City has a lack of segregation of duties. Because of its size, the City does not feel it is cost effective to hire the number of employees needed for an adequate segregation of duties. The City Council and management rely on their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Finding 2023-002 Internal Control Over Financial Reporting

Condition: There is a lack of internal control over the year-end financial reporting process.

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.

Cause: The City does not currently have the resources necessary to prepare the year-end financial statements or schedule of expenditures of federal and state awards.

Effect: Because of the lack of internal control over year-end financial reporting, the City's financial statements or schedule of expenditures of federal and state awards may be misstated.

Recommendation: Most small governments operate with only enough staff to process monthly transactions and reports and will continue to rely on outside consultants to assist with year-end adjustments and year-end financial reporting. The City Council should continue to make a reasonable effort to be knowledgeable about the City's financial condition and financial reporting requirements.

Management's Response: The City is aware that there is a lack of controls over its year-end financial reporting process. Because of its size, the City does not feel it is cost effective to hire the number of employees needed to complete these tasks in the near future. City management reviews the adjustments and reports prepared by the auditors to ensure accuracy of the information.